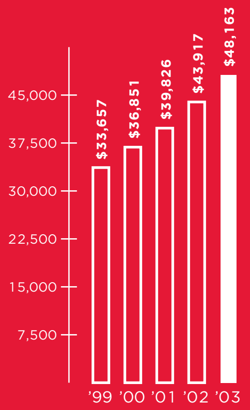
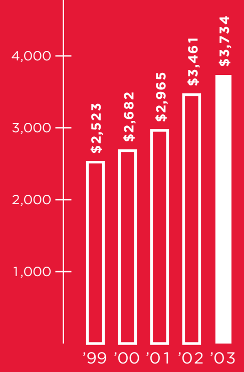
TARGET CORPORATION ANNUAL REPORT 2003

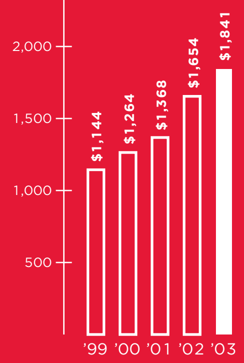
Financial Highlights



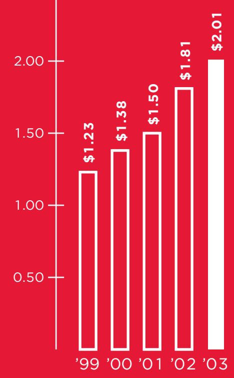
Revenues
(millions)



Pre-tax Segment Profit
(millions)



Net Earnings
(millions)



Diluted Earnings per Share

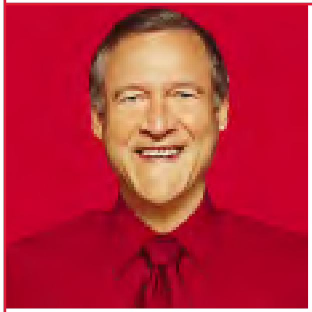
	2003	2002	2001	2000*	1999
Operating Results (millions)					
Total revenues	**$48,163**	43,917	39,826	36,851	33,657
Pre-tax segment profit	**$ 3,734**	3,461	2,965	2,682	2,523
Net earnings	**$ 1,841**	1,654	1,368	1,264	1,144
Per Common Share Data**					
Diluted earnings per share	**$ 2.01**	1.81	1.50	1.38	1.23
Cash dividends declared	**$ .270**	.240	.225	.215	.200
At Year-end (millions, except Number of stores)					
Common shares outstanding	**911.8**	909.8	905.2	897.8	911.7
Retail square feet	**188.6**	176.5	161.6	149.4	139.4
Number of stores	**1,553**	1,475	1,381	1,307	1,243

**Consisted of 53 weeks.*

***Earnings per share, dividends per share and common shares outstanding reflect our 2000 two-for-one common share split.*

The Financial Highlights should be read in conjunction with the Notes to Consolidated Financial Statements throughout page 30-39.

To Our Shareholders



For decades, Target Corporation has been guided by principles, and devoted to strategies, that are intended to enhance our long-term financial performance and success. We have maintained a steadfast commitment to initiatives that fuel consistent growth over time because we believe that managing our business this way continues to generate substantial value for our shareholders.

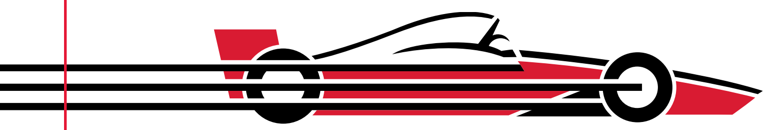
At Target Stores, which now represents more than 90 percent of our total pretax segment profit, our vision is clear and unwavering, reinforced by the strength and consistency of our financial results and the power of our brand. Target continues to enjoy strong market share gains and significant increases in profitability.

At Mervyn's and Marshall Field's, our path is less clear. In March, we announced plans to review strategic alternatives for both of these divisions, including, but not limited to, the possible sale of one or both divisions to existing retailers or other qualified buyers. Arriving at this decision was not easy or hasty. We have dedicated significant effort to increasing sales and profits at Mervyn's and Marshall Field's over many years and we continue to believe that both of these businesses are valuable as ongoing operations. Mervyn's and Marshall Field's have been important contributors to Target Corporation's overall strategy and financial performance for decades — providing fashion leadership, management talent, and financial services expertise as well as significant cash flow that has allowed us the luxury of simultaneously pursuing terrific growth opportunities for our Target Stores division, while maintaining both a balanced capital structure and strong investment grade debt ratings. Additionally, these businesses have provided critical scale benefits to the Corporation, allowing us to leverage our fixed costs across a much larger retail organization. In recent years, however, both of these divisions have experienced considerable challenges to their top-line growth, resulting in unfavorable trends in their financial performance. While each of these businesses continues to generate meaningful profits and substantial positive cash flow, the absolute amounts are much lower than their historical levels.

As stewards of the Corporation's assets, our senior management team and our Board of Directors remain intently focused on our responsibilities to our shareholders, our team members, our guests and the communities we serve. While we believe that it is appropriate to identify and evaluate possible strategic alternatives for Mervyn's and Marshall Field's, it is not clear that our review will result in either division being sold. Despite this uncertainty, we remain confident that Target Corporation is well-positioned to build on our record of outstanding performance and to generate profitable growth and superior shareholder value in 2004 and well into the future.

In 2003, Target Corporation delivered $2.01 in earnings per share, reflecting another year of double-digit growth, primarily due to contributions from Target's merchandise operations and the Target Visa portfolio. These contributions reflect continued strategic investments in our business that reinforce and enhance our brand and increase our guests' satisfaction. For example:

- To provide greater guest convenience, Target constructed 101 total new stores during 2003. Net of relocations and closings, this store opening program included 54 net new discount locations and 24 new SuperTarget stores, amounting to 12.3 million net new square feet, an increase of 8.8 percent.
- We refined our emphasis on "Wants and Needs" within our merchandise assortment and our marketing campaigns in order to give our guests more reasons to shop at Target more often and to generate higher sales.



"In addition, we are optimistic about the potential future benefits provided by other programs we are pursuing, such as our global sourcing and guest relationship management efforts. Many of these initiatives increasingly reflect the integration of cross-functional disciplines, allowing us to leverage our resources, improve our efficiency and increase our overall agility and speed."

"As we move into 2004 and beyond, we continue to challenge ourselves to seize new opportunities to delight our guests — to offer more fashion and differentiation, greater value, reliability and convenience, quicker delivery of new product and faster, friendlier service — in short, to do what we have always done, but better."

- We added more new distribution capacity than we have ever added in a single year — four new regional distribution centers and two new import warehouses — to improve the efficiency, consistency and speed of flowing products to our stores.
- We implemented hundreds of new technology applications and installed thousands of pieces of hardware throughout our organization to make our guests' experience more rewarding and to make our team members' work environment more productive and more fun.
- We invested hundreds of millions of dollars in the growth of the Target Visa portfolio, delivering more value to our guests and producing a substantial increase in revenues and receivables balances that accounted for more than 100 percent of our overall credit card operation's annual growth.
- And we remained steadfast in our commitment to support programs that improve the quality of life in the communities where we operate, to embrace the diversity of our guests and team members and to perpetuate our heritage of strong corporate governance and integrity.

As we move into 2004 and beyond, we continue to challenge ourselves to seize new opportunities to delight our guests — to offer more fashion and differentiation,

greater value, reliability and convenience, quicker delivery of new product and faster, friendlier service — in short, to do what we have always done, but better. As described in the following pages of this report, our plans in 2004 include the continued profitable expansion of the Target store base in line with our historical growth in the range of 8 to 10 percent net new square footage annually. We expect to add approximately 95 to 100 total new stores, or about 80 to 85 new stores net of closings and relocations. We are very excited about the modifications we are introducing in our new store design in 2004 because we believe this current iteration of Target store is more pleasant and inviting and promotes our goal of being the preferred shopping destination for our guests. In addition, we are optimistic about the potential future benefits provided by other programs we are pursuing, such as our global sourcing and guest relationship management efforts. Many of these initiatives increasingly reflect the integration of cross-functional disciplines, allowing us to leverage our resources, improve our efficiency and increase our overall agility and speed — critical factors in sustaining our competitive advantage in a dynamic retail environment with a competitor as formidable as Wal*Mart.

One of the reasons for the success of Target over the long term in this competitive arena is the continuity and consistency of our strategy. For more than four decades, we have been able to replicate the unique Target formula across the country by remaining focused on who our guest is and what she wants, and by consistently creating the excitement that our guests value. We have demonstrated our ability to execute, to innovate and to grow profitably over time.

"As we look to the future, we are confident in the underlying strategy, growth and profit potential of Target Stores. Based on our proven track record of performance, we believe that Target will continue to deliver a brand experience that is preferred by our guests."

In the past ten years, Target has approximately doubled its number of stores, roughly tripled its revenues, and more than quadrupled its pretax segment profit and Target Corporation has delivered nearly an 18 percent increase in average annual earnings per share and a total annualized return to shareholders of about 23 percent.

As we look to the future, we are confident in the underlying strategy, growth and profit potential of Target Stores. Based on our proven track record of performance, we believe that Target will continue to deliver a brand experience that is preferred by our guests, and as a result, we believe that Target still has significant opportunities for profitable expansion and market share increases in the continental United States.

Though our outlook for Mervyn's and Marshall Field's is less certain at this time, we firmly believe that the strategic review we are undertaking and our resulting decision and actions serve the long-term interests of Target Corporation overall and re-affirm our primary objective to create substantial value for our shareholders.

Sincerely,

Bob Ulrich, Chairman and Chief Executive Officer

Merchandising

Exclusive Design Partnerships
Target is committed to offering fashion newness and excitement to our guests each time they visit our stores and our exclusive design partnerships contribute meaningfully to this differentiated merchandise strategy. For example, in 2003, we continued to expand our collaborations with current designers like Sonia Kashuk and Michael Graves and introduced new lines from Isaac Mizrahi, Liz Lange and Amy Coe. We believe these exclusive design partnerships reinforce our brand, delight our guests and help us sustain our competitive advantage.

Target has consistently delivered the merchandise our guests *want* — specifically, a selection of exceptionally priced, differentiated product that no other retailer can match. More recently, we've concentrated increased efforts on what our guests *need*. It's this unique combination — appropriately balanced within our assortment — that reinforces our *"Expect More. Pay Less."* brand promise and allows us to remain relevant to our guests.

Focus on Frequency Research shows that guests time their shopping trips to coincide with the replenishment of specific consumable and commodity items, such as household cleaners, paper supplies, prescriptions, food and beverages, and health and beauty aids. For more than a decade, sales of these categories at Target have substantially outpaced the rest of the store. To satisfy our guests' demand for greater value and convenience and to gain a greater share of their overall spending, we are elevating our focus on strategies to drive higher frequency. For example, we are:

- expanding our merchandise selection of consumable items,
- increasing the visibility of everyday essentials through more prominent marketing and in-store presentation,
- investing in pharmacy technology and guest communication to improve speed and service and strengthen our relationship with our pharmacy guests,
- merchandising and marketing to specific guest segments, such as Mom and Baby and households that are moving or relocating, and
- ensuring that our prices remain competitive and compelling.

The Right Brands, Right Now

Of course, satisfying our guests' needs is only part of the equation. To retain our reputation as a cool place to shop, we consistently deliver differentiated merchandising, too. Our competitive advantage lies in our ability to surprise and delight our guests on every visit — offering them the opportunity to fill their baskets with what they want while allowing them to buy what they need.

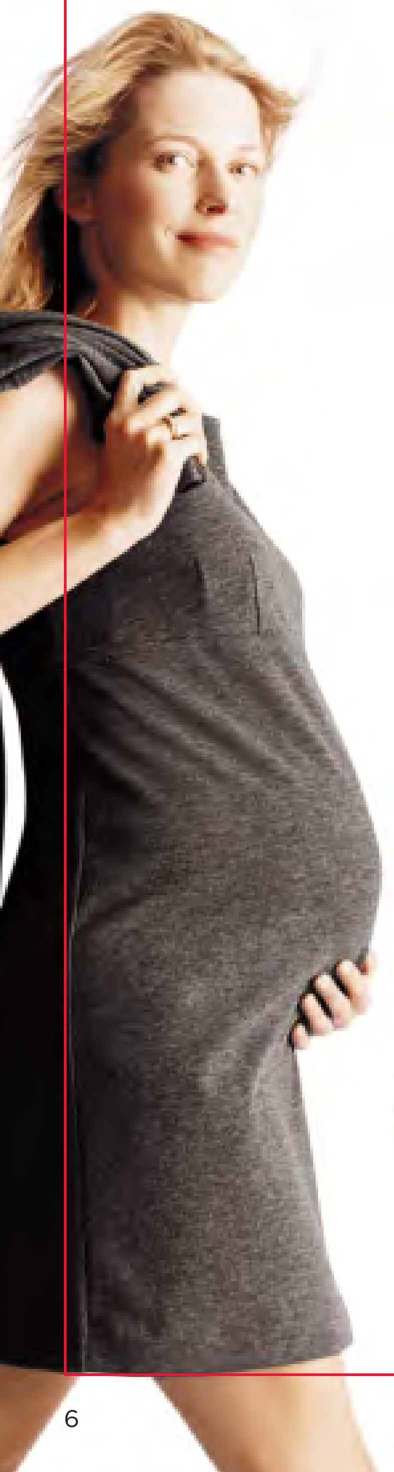
Design partnerships clearly set Target apart from other discount retailers. Our guests know and want products by Isaac Mizrahi, Liz Lange, Sonia Kashuk, Michael Graves, and Mossimo. Names such as these add excitement to our assortment and enhance the Target image with our guests, while our sourcing expertise, scale and brand strength give these renowned names broad distribution at uniquely affordable prices.

We also delight our guests by offering trusted national brands that include Genuine Kids by OshKosh, Virgin Pulse, Bialetti, Waverly and Woolrich. These brands provide the reliability and quality our guests demand and their exclusivity at Target reinforces our unique positioning in the discount channel.

Among discount retailers, Target is unquestionably the leader in trend merchandising and innovation. In fact, in 2003, Target became the first general merchandise retailer to receive an award from the Smithsonian Institution's Cooper-Hewitt National Design Museum for helping advance the relationship between design and the quality of life. The talent and experience of our in-house product design and development team, in combination with the extensive resources of Associated Merchandising Corp. (AMC), our global sourcing organization, enable Target to offer owned brands, such as Merona, Xhilaration and Room Essentials, that represent current-season fashion and themes at considerable savings to similar specialty-store items. By leveraging technology and working directly with manufacturers around the globe, AMC ensures that our goods are produced in accordance with our high-quality, low-cost standards and meet our speed-to-market objectives. As other companies work to create their own sourcing organizations, we continue to enhance Target's sourcing power, speed new products to our guests and maintain competitive prices.

Trusted National Brands *As a complement to our owned brands and exclusive design partnerships, we also offer our guests the quality and trend of such trusted national brands as Waverly, Calphalon, Virgin Pulse and Sony Liv.*

Guest Demographics
Our commitment to pleasing our guests is inherent in our strategy: it drives our merchandising as well as many of our investment and operating decisions. As a result, we strongly believe that we need to know our guest and understand her preferences. Though we recognize and respect the individuality of each guest, our research suggests that more than 90 percent of our guests are female with a median age of 45 years. Approximately one-half have earned a college degree and about 40 percent have school-age children at home. By continuing to supplement this guest profile, we are better able to satisfy each guest's wants and needs.



Frequency Initiatives *We have intensified our focus on items and categories that drive more frequent shopping trips and that appeal to specific guest segments, such as those experiencing major transitions in their lives.*

Commodities *Reflecting our guests' preferences, we have expanded our assortment of everyday essentials, raised the visibility of these items in our stores and in our marketing, and established pricing that is both compelling and competitive.*

pharmacy

Pharmacy *By offering knowledgeable, friendly assistance and convenience, Target pharmacies create added value for our guests. We are committed to deepening this guest relationship through improved communication and faster service.*

Consumables *We're expanding our selection of consumables with more meal and baking essentials, snacks, beverages and convenience items such as milk and orange juice — making Target an even better one-stop-shop for busy guests.*

baby

Mom and Baby *Target is an important destination for expectant and new mothers. To increase their ease of shopping, we are now grouping together their high-demand items like diapers, formula, infant and toddler apparel and baby furniture and accessories.*

Movers *Target offers guests who are relocating or moving a broad array of core household basics, home fashions and decorative items to make their transition to their new home a smooth and pleasant experience.*

Wants & Needs *Guided by our* Expect More. Pay Less. *brand promise, we are unwavering in our commitment to create value for our guests. We fully recognize that our guests satisfy their wants through our offering of trend-right merchandise, exclusive brands and design partnerships ... and, that our guests satisfy their needs with our reliable selection of consumables and commodities, exceptional prices and fast, convenient service. By maintaining an appropriate balance in this equation, Target is able to further strengthen guest loyalty, drive increased frequency and deliver superior financial performance.*

Buying Time

Guests shop with retailers who offer them what they want. And in many cases, what guests *want* is more time. As a result, we are keenly focused on producing an in-store shopping experience that is fast and convenient. In addition, Target and Marshall Field's have created Web sites that allow our guests to shop quickly and easily from the comfort of their own homes. In 2003, we expanded our online functionality to allow guests to link their Club Wedd and Marshall Field's Gift Registries and to purchase from the world's largest online gift assortment in a single transaction. This multi-channel approach to sales and marketing, and smart use of technology, satisfies a critical guest demand and generates profitable market share growth.

A Consistent Commitment

Delivering the right balance of differentiation and value is the cornerstone of our strategy and is inherent in our *Expect More. Pay Less.* brand promise. Today, we believe that we're right on Target — but we also know we're far from finished. Our commitment to delight our guests with exciting fashions, exceptional convenience and selection, and superior value means that we will continue to embrace new trends and pursue new opportunities to sustain our competitive advantage.

Store Experience and Growth

2004 Prototype *To provide a shopping experience that our guests prefer, we continue to evolve our store design, merchandise assortment, signing and presentation. In our newest iteration, we have realigned merchandise adjacencies to create more powerful category presentations and we have expanded or edited our assortments to better reflect our guests' shopping patterns. On the exterior, our design and materials complement the local architecture and natural landscape and integrate improvements in accessibility, safety and lighting.*

Fast, friendly service. Clean, fun-to-shop stores. Knowledgeable team members and the merchandise our guests want and need most. They're all components of a Target store experience that no other retailer can match.

Fast, Fun and Friendly Feedback from our guests plays an important role in our efforts to deliver a consistent, convenient and enjoyable Target shopping experience. It has led us to place significant importance on factors such as speed, store cleanliness and excitement, and merchandise quality, trend and presentation.

In 2003, we continued to invest in technology and service initiatives that enhance our guests' satisfaction during each of their visits to a Target store — many with an emphasis on improving speed.

- We added nearly 10,000 new price scanners that allow Target team members to quickly verify product availability, to facilitate merchandise price checks and to locate items anywhere within our stores.
- When guests in our stores have questions, they don't have time to wait. To make it easier and more convenient for them to get the help they need, we've installed more red service phones throughout Target stores and adopted measures to improve our response time to guest calls.
- Speed at checkout continues to be a top priority, and during 2003, we further reduced our guests' length of wait to pay. Specifically, we reiterated our objective to allow no more than two guests in a checkout line at any given time; we increased our investment in cashier training; and we implemented systems that seamlessly give our team members the capability to open additional check lanes when needed.
- Even our ability to process merchandise returns has been simplified and expedited, making our guests' hectic lives much easier. With our receipt-lookup system, we are able to process a merchandise return within 90 days of its purchase, even without the original receipt, if the purchase was made using a check or credit card.

SEE. SPOT. SAVE.

Value *Our commitment to our* Expect More. Pay Less. *strategy remains as strong as ever. The strength of our brand reflects our keen focus on delighting our guests by successfully balancing our offering of fashion newness and differentiation with outstanding value.*

Speed *Because we understand the importance of time in our guests' hectic lives, we deliberately invest millions of dollars in systems, team member training and elements of store design that offer our guests greater speed and convenience when they shop in our stores.*

SuperTarget *SuperTarget complements the tremendous growth provided by our traditional discount stores and promotes our brand experience in each store. Like Target, SuperTarget offers a unique, differentiated general merchandise offering, yet also provides our guests the added convenience of a high-quality, full-line grocery assortment. Both stores are focused on delivering fashion and value. Given the acceptance of this concept by our guests and its financial contribution to Target, we expect SuperTarget to continue to be an important element of our growth for many years to come.*

While our guests appreciate our fast service, they also value the fun and friendly Target shopping experience—our knowledgeable, responsive team members, our pleasant, inviting stores and the energy, excitement and entertainment produced by our merchandising and marketing efforts. *Fast, Fun and Friendly* is how we strive to serve our guests at Target everyday; it's also how we live the Target brand.

Looking Good

The appearance and atmosphere within Target stores are as integral to the Target brand as our differentiated merchandising, our distinctive marketing and our fast, fun and friendly guest service. We are uncompromising in our standards of housekeeping, unwavering in our commitment to maintain superior in-stock levels and attractive merchandise presentations, and we annually invest about $400 million to remodel, expand and update our existing stores. In 2003, our guest research indicated that focusing on these details is paying off with our guests, as our guest survey scores for these attributes were among the highest in our history.

In 2004, we will unveil the newest Target prototype, which more effectively conveys category dominance and value, provides more guest-friendly merchandise adjacencies, and offers assortments in key categories that have been expanded or edited to reflect our guests' preferences. In our new Consumables World, additional space is devoted to high-frequency goods such as pets, paper products, health and beauty aids and food. Entertainment World brings electronics, entertainment, toys and sporting goods together in one fun destination for families and kids of all ages. And Target Baby, our Mom and Baby World combines essentials like diapers and formula with apparel, infant and toddler accessories and furniture.

Our guests have come to expect great looking Target stores, and we intend to consistently deliver.

Speeding into 2004 ... Momentum Backed by Success

Through disciplined investment in new discount stores and SuperTarget stores, and the growth of sales in existing stores, Target is enjoying profitable market share increases. We continue to add eight to 10 percent, net, to our retail square footage annually, with SuperTarget stores typically representing about one third of this growth.

At SuperTarget, guests find the great merchandise they've always found at Target, plus a well-stocked supermarket. These stores are producing strong results and we continue to refine our merchandising and operations to ensure greater guest satisfaction. We remain focused on improving our sourcing, offering unique products and delivering exceptional value. We are adopting new higher standards for freshness, food safety and sanitation. We have significantly improved the packaging design on our own Archer Farms and Market Pantry products, and we are more than doubling our penetration of these brands in our stores.

To achieve our objective to be the preferred shopping destination for our guests, we are relentlessly pursuing new opportunities and initiatives that enhance our brand identity, while maintaining a disciplined capital investment program. We understand that our guests appreciate the chain-wide consistency of Target — our dedication to fast and friendly service as well as clean, fresh, easy-to-shop store environments. Together, these elements have been important contributors to our past success and we believe they will be key components in the future as well.

Owned Brands *Our owned brands, such as Market Pantry, Archer Farms, Merona and Xhilaration, form the foundation of our differentiated strategy in both our food and general merchandise assortments. Because our grocery brands are under-penetrated and represent a high-quality, value-priced alternative for our guests, we are working diligently to expand our offering. In 2003, our merchandise introductions produced a 60 percent increase in items.*

"Steer a red-plastic shopping cart down the wide white aisles of any Target store and you'll see wonderful design mixed in with the jumbo-size laundry detergent, school supplies and pet food..." — *House Beautiful*, June 2003

Fast, Fun and Friendly Team *Our commitment to please our guests is at the heart of our strategy and inherent in our brand identity. Each of our approximately 273,000 team members is committed to offering outstanding service to our guests, every day, in every store, one guest at a time. By injecting speed into each guest experience, providing knowledgeable and cheerful service and ensuring that our stores are clean and inviting, we make superior guest service a priority.*

Financial Services

Target Visa *During 2003, we enjoyed continued success in the growth and performance of the Target Visa card, reflecting our guests' strong positive bond with our brand. As of year-end, the Target Visa portfolio included more than four billion dollars in accounts receivable and over nine million cards issued and represented a substantial portion of the annual increase in our credit card operation's profit contribution.*

At Target Financial Services, we are driven by dual objectives: (1) to build retail sales by deepening our relationships with our guests, and (2) to sustain outstanding profitability and growth in delivering financial services to our guests.

To achieve these joint objectives, we're offering our guests more reasons to shop our stores — like loyalty programs that speak to what matters most in their lives and financial product innovations that make shopping and saving easier than ever before. We strive to fully integrate our efforts into a unified guest experience, while operating with the discipline, expertise and strategy of a stand-alone financial services business.

Adhering to Core Principles

Since our credit card operations were consolidated in 1995, our business decisions and growth have been guided by four core operating principles.

The first principle is that we drive our growth through value-added programs, not through aggressive credit decisions. Our various Rewards programs, for example, give guests compelling reasons to use *our* cards, rather than other general purpose credit or debit cards.

Our second principle is that we exercise strong financial controls in the management of our business. We never compromise our underwriting standards for short-term gain or growth. This discipline ensures that we are able to sustain our profitability as we grow our portfolio over the long-term.

Our third principle is to make strategic investments, particularly in state-of-the-art technology that will contribute to increased efficiency and performance. Investments in recent years have enabled us to meaningfully reduce our operating expense rates and achieve levels of guest service that are among the best in the credit card industry.

Our fourth and final guiding principle is our commitment to building a superior organization by attracting and retaining talented and dedicated team members. The majority of our financial services management has significant prior experience at other leading financial institutions.

More Great Reasons to Shop at Target

Similar to our focus in other areas of the company, our financial products and services are designed to profitably increase shopping frequency and average transaction amount, while reinforcing and enhancing our brand identity.

GiftCards *Through innovative designs that reinforce our brand image and satisfy a wide range of gift-giving occasions, GiftCards are an important way for us to delight our guests and drive incremental sales and traffic in our stores. According to a recent survey, more than 90 percent of guests who come to a Target store to redeem a GiftCard spend more than the value of the card.*

Store-Brand Credit Cards
Our store-brand credit cards build guest loyalty and reinforce affinity with our brand through unique Rewards programs, special offers and customized marketing. They also generate a strong financial return.

While our proprietary credit cards at Target, Mervyn's and Marshall Field's create an important affinity with our guests and contribute meaningfully to our financial performance, other products and services are increasingly visible and valuable. Gift cards, for example, represent another form of branded payment that has experienced rapid growth in recent years. Since our first GiftCard was issued in 1999, GiftCards have enjoyed a substantial double-digit dollar increase every year. And, by applying the same differentiated and innovative approach to our GiftCards as to our merchandising and marketing, Target is among the largest issuers of gift cards in the world.

Target Visa

The Target Visa exemplifies both our key strategic objectives and our core operating principles.

Target Visa guests are more devoted Target shoppers and routinely spend 50 to 60 percent more at Target stores than other Target guests. This loyalty affirms our belief that the utility of the Target Visa card, in conjunction with programs such as Take Charge of Education (TCOE) and Target Rewards, delivers meaningful, incremental value and strengthens our bond with our guests.

This bond is reinforced through the efforts of our own credit card team members. By maintaining direct access to our guests, we are able to acquire valuable information that helps us to more effectively serve their needs. Furthermore, our considerable experience in managing credit card operations over many decades has contributed to an operating efficiency consistent with industry leaders.

From a financial perspective, Target Visa demonstrates our adherence to financial discipline and also clearly satisfies our primary objectives. Since the card was first introduced, our net yield on the Visa portfolio has steadily improved, and in 2003 our profit contribution from this portfolio was substantially above its prior year level.

Growing Fast, Growing Smart

Our credit card operations have achieved tremendous results. Yet, for all of our success, we're not standing still. We continue to pursue initiatives that expand our horizon beyond the traditional credit card business and leverage our scale and technology to generate profitable growth and improve our guests' experience. For example, our guest contact centers are staffed by specialists who handle all guest inquiries and correspondence from Target stores guest relations, our bridal and baby registries, Take Charge of Education and our credit card operations. In addition, by recognizing the parallels between credit and check payment models and applying our core credit card disciplines and tools to our in-store check authorizations, we have significantly reduced our returned check expenses.

Vision and discipline continue to be the cornerstones of our approach as we propel our business forward. And as we grow, we remain firmly committed to our mission: to deliver financial products and services that drive sales, deepen guest relationships and sustain outstanding profitability.

Supply Chain and Technology

Positioned among the best in retail, our supply chain helps drive sales, reduce costs and ensure the availability of products our guests most want and need. Through continued investment in technology, infrastructure and operational improvements, we are pursuing initiatives that we believe will increase both our guests' satisfaction and our profitability. In order to sustain this competitive advantage, we have put our supply chain on the fast track.

Develop. Deliver. Delight. Being first with new trends or products is one of the ways we delight our guests. And, shortening our merchandise lead times is one of the ways we maintain our fashion leadership position. To speed delivery of product to our stores' shelves, we are using sophisticated online tools to design product and to negotiate pricing, production and delivery terms. Additionally, we are leveraging the global expertise of AMC to identify reliable vendor partners, source materials and manufacture the high-quality, fashionable merchandise our guests expect. Our efforts in recent years have produced a significant reduction in the length of our supply chain and we remain committed to achieving further improvements moving forward.

Strengthening our Network

To support our new store growth and better serve our existing stores, we continue to expand our distribution capacity and invest in leading-edge technologies. Our current distribution network includes 19 regional distribution centers (RDCs) and three import warehouses, with more than 90 percent of our general merchandise flowing through our RDCs. In addition, we are steadily expanding our self-distribution of dry grocery products, with nearly 50 percent of these items handled in-house in 2003.

The recent integration of import warehouses into our supply chain adds an important dimension to our strategy. These facilities store seasonal and imported merchandise and allow us to funnel goods through our regional distribution centers to our stores as demand warrants. By providing incremental distribution capacity, these facilities also increase the effectiveness of our item segmentation strategy, allowing us to move high-demand items through our distribution process with greater priority.

Technological enhancements in our RDCs continue to improve the productivity, accuracy and speed within our supply chain.

- In 2003, we began implementation of an electronic labeling system called Automated Receiving Technology (ART). This program utilizes real-time information

In-Stock Levels Being in-stock on the items our guests want is a key factor in delivering consistent guest satisfaction and generating strong incremental sales and profits. To achieve these results, we are focused on initiatives that optimize inventory flow and balance in-stock reliability with inventory control. We have made tremendous strides toward achieving our goals and believe we are well-positioned for the future.

about where product is needed and automatically labels cartons appropriately, accelerating the flow of goods directly to our stores and eliminating what was once a time-consuming, labor-intensive procedure. ART is planned for rollout across our distribution network in 2004.

- We're also implementing a system for imported products that incorporates more timely sales and inventory information into the merchandise allocation decision and helps us allocate imported product to our stores closer to the time of need.
- Another recently-launched system that is benefiting both our store team members and our guests identifies the specific aisle and shelf location for incoming merchandise and improves our store discipline and our stores' speed of stocking new product.
- And finally, our Web-enabled supply chain tracking system provides end-to-end visibility for merchandise orders — from vendor booking to in-store receipt, facilitating faster action when there's a break in the chain.

Rapid. Ready. Reliable.

Maintaining superior in-stock levels remains a top priority, and our focus on this metric has resulted in two consecutive years of record in-stock levels. The key contributors are:

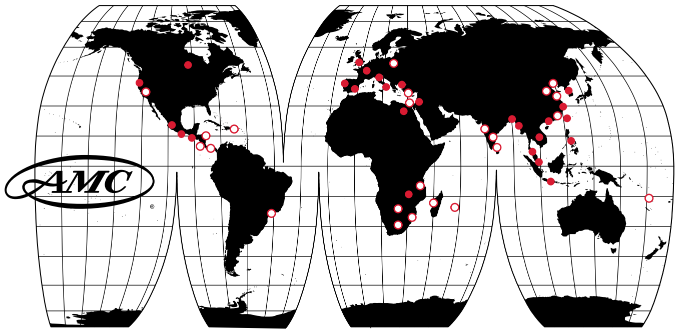
- a keen focus on the in-stock positions of our 2,500 most-wanted items,
- improved in-stock levels for items advertised in our weekly circulars,
- increased efficiencies in transitioning product from one season to the next, and
- intensified efforts to deliver more reliability and freshness through improved in-stock performance of food and consumables.

Making High-Speed Connections

Each year, the speed at which technology changes seems to grow exponentially. At Target, we're pursuing new applications — evaluating emerging opportunities and testing recent developments that may better serve our guests.

Next on the horizon? We are intently focused on increasing our level of directly-imported product — from its year-end 2003 level representing about 15 percent of our purchases to approximately double this amount over the next few years. And though still early, Target is also actively exploring Radio Frequency Identification (RFID) and its potential benefits.

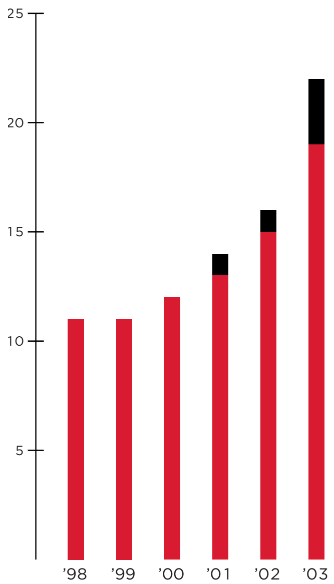
Through our commitment to technological and operational advances, Target will continue to find ways to delight our guests, retain our supply chain leadership and build on our foundation of creating substantial shareholder value.



Global Sourcing *AMC is one of the world's largest sourcing organizations, with approximately 2,000 team members in over 50 countries. The AMC team contributes meaningfully to the quality and efficiency of our sourcing activities and will play a larger role moving forward as we shift a significant portion of our indirect imports to direct purchases over the next three to five years.*

Efficient Logistics *Our supply chain continues to be an area of major emphasis and substantial strategic investment. We are intently focused on initiatives that increase productivity, improve in-stock reliability and accelerate the speed of merchandise availability in our stores. Through continuous innovation, investment in technology and infrastructure and increased collaboration with our vendors, we are working to further strengthen our competitive position.*

SUPPLY CHAIN GROWTH 1998–2003



+44%
STORES SERVICED

+82%
CARTONS PROCESSED

+110%
RDC SQUARE FOOTAGE

- Regional Distribution Centers (RDC)
- Import Warehouses

Corporate Citizenship

Corporate Governance
"We have long believed that a strong board makes a first-class management even stronger, that a professional board makes management even more professional, that an optimum relationship between board and management creates an almost unbelievable dynamic, and that the ideal board setup is the corporation's best protection of its future… It is for this reason that we have given a tremendous amount of time and thought to matters of corporate governance — to its philosophy and structure."
— Kenneth N. Dayton, January 1984

Harvard Business Review

What makes a good corporate citizen? At Target, it's a commitment to community giving, inclusive environments for our team members and guests, and a strong and focused approach to governance. Public involvement has been a key component of our corporate strategy and operations for decades and it remains an inherent element of our future direction and brand image.

Building Healthy, Safe Communities Local, national and international challenges continue to affect our guests' lives and, therefore, our business. Target contributes over two million dollars a week and thousands of volunteer hours to programs that strengthen families and build stronger communities through education, arts, social services, and other vital community partnerships. And although we've always supported education, we've expanded our commitment in innovative ways.

- Through Take Charge of Education (TCOE), our school fundraising initiative, we've contributed more than $100 million to create opportunities for teachers, students and schools.
- Because reading ability is a key component in life-long learning, we partner with organizations that seek to improve childhood reading, such as Reach Out & Read, the U.S. Department of Education and through numerous book festivals across the country. Our own *Ready. Sit. Read!* program at Target, *Go Read!* at Marshall Field's and *Go Places. Read!* at Mervyn's leverage the power of Target Corporation to connect children across the nation with books.
- Target Corporation and the Tiger Woods Foundation are partners in Start Something, a program that helps participants ages 8 to 17 identify and realize their dreams. To date, two million children have enrolled.

Target Corporation also remains committed to increasing access to the arts. For example, we sponsor a Marshall Field's Day of Music in Detroit, Minneapolis and Chicago. In San Francisco, we sponsor Target Tuesdays at the Asian Art Museum. And, families in Southern California enjoy musical productions as part of 'Mervyn's Musical Mornings.'

In 2003, Target extended its giving overseas with the AMC International Grant Program, which funds accessible, quality educational opportunities for children in 20 countries where AMC has offices. Because they are administered at the local level, these grants help communities help themselves, building leadership and momentum for future successes.

During the year, Target also helped address critical safety issues in our store communities. For example, in Minnesota, Target partnered with the State of Minnesota to create CriMNet, an integrated database that links more

Community Giving

Our consistent dedication over time to community giving sets Target Corporation apart from other companies. Through our support of local and national programs, we are able to improve the quality of life in the communities we serve.

TARGET HOUSE

Target House exemplifies our heartfelt commitment. Along with our celebrity partners and more than 150 vendors, Target Corporation has given more than $27 million to this effort in the past seven years.

TARGET VOLUNTEERS

Our team members proudly share and support our giving philosophy by lending their time, talent and financial resources to local charities. During 2003, our team members contributed more than 350,000 hours to thousands of projects nationwide.

By designating the school of their choice and using their Target Guest Card or Target Visa card, our guests have directed Target to donate more than $100 million to schools throughout the country.

The strength of many. The Power of One. *We respect and value the individuality of all our team members and guests. We embrace diversity as a means to harness our many individual strengths so that we can work together as one team with one vision. We believe this inclusive culture helps to ensure our future success.*

than 1,100 criminal justice jurisdictions throughout the state in an effort to reduce the growing problem of recidivism. This partnership demonstrates our commitment to make every store community safer.

Target House is a home-away-from-home for families of children undergoing treatment at St. Jude Children's Research Hospital. This unique residence that Target and its vendors helped to build and furnish virtually guarantees housing to every family with a sick child. The hospital's medical staff, which provides its services free of charge to children from anywhere in the world, has attributed this distinctive environment to improved cure rates among its patients.

The strength of many. The Power of One.

At Target, we define diversity as individuality—the unique attributes, perspectives and talents that strengthen our company as a whole. Promoting diversity within our work and store environments is an important and growing part of our culture. In 2003, we launched *The strength of many. The Power of One.* campaign to create excitement and awareness of the benefits of diversity among our team members and pledged our continued efforts to make Target Corporation wholly inclusive.

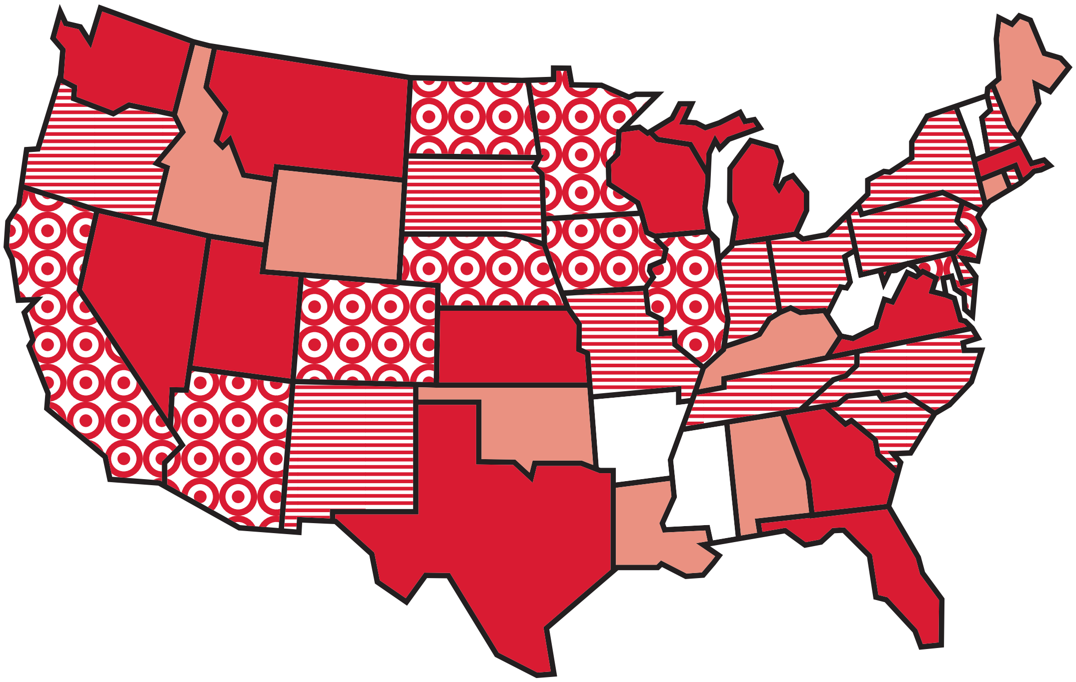
We support diversity in many ways: by hiring a wide range of team members who reflect the communities we serve, by welcoming all guests into our stores and making them feel valued and comfortable, by sponsoring innovative events across the nation, and by embracing a multicultural merchandising strategy that meets the needs of a diverse marketplace. We also create opportunities for vendors through our Minority and Women Business Development program. Each year, Target enlists the services of more than 2,800 such businesses to fill a variety of needs, from general construction to technology services.

Fulfilling our Legacy of Leadership in Governance

A commitment to strong corporate governance has been an integral part of our corporate identity for decades and is a powerful legacy of our Dayton family founders. Consistent with this heritage, we maintain a high-quality, independent board of directors, whose members represent a balance of industry experience, geography, ethnicity and gender. Our board actively challenges senior management to fulfill its obligations and realize new opportunities. And, to ensure that we perpetuate this strong and vital corporate governance model, we formally review our practices and policies each year.

We firmly believe that strong corporate citizenship is a key to our continued success. Our proactive and visionary approach to board leadership, our heartfelt community involvement and our commitment to diversity combine to reinforce our positioning for the years ahead.

Target Market Share



Year-end 2003 Store Count and Square Footage by State

Market Share Group	No. of Stores	Retail Sq. Ft. (in thousands)
10% + Market Share		
Arizona	36	4,200
California	184	22,486
Colorado	29	3,834
Illinois	62	7,706
Iowa	19	2,535
Maryland	24	2,968
Minnesota	65	8,590
Nebraska	11	1,397
New Jersey	28	3,537
North Dakota	4	505
Group Total	**462**	**57,758**
7.5% – 9.9% Market Share		
Florida	78	9,736
Georgia	38	4,873
Kansas	14	1,810
Massachusetts	19	2,391
Michigan	51	5,718
Montana	7	764
Nevada	14	1,736
Texas	107	14,019
Utah	9	1,428
Virginia	31	3,865
Washington	29	3,305
Wisconsin	29	3,358
Group Total	**426**	**53,003**
5.0% – 7.4% Market Share		
Delaware	2	268
Indiana	32	3,885
Missouri	26	3,349
New Hampshire	5	649
New Mexico	8	872
New York	37	4,869
North Carolina	31	3,734
Ohio	44	5,258
Oregon	16	1,892
Pennsylvania	30	3,831
Rhode Island	2	254
South Carolina	14	1,726
South Dakota	4	417
Tennessee	22	2,594
Group Total	**273**	**33,598**
2.5% – 4.9% Market Share		
Alabama	10	1,540
Connecticut	6	773
Idaho	5	536
Kentucky	12	1,360
Louisiana	10	1,428
Maine	1	125
Oklahoma	10	1,273
Wyoming	2	187
Group Total	**56**	**7,222**
0.0% – 2.4% Market Share		
Arkansas	3	368
Mississippi	2	239
Vermont	0	–
West Virginia	3	375
Group Total	**8**	**982**
Total	**1,225**	**152,563**

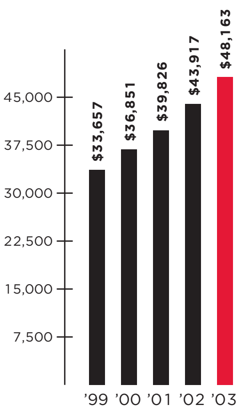
For purposes of this map, market share is defined as Target Stores sales by state as a percentage of U.S. General Merchandise Store sales, including department stores, discount stores, supercenters and warehouse clubs. For other purposes, broader or narrower measures of market share may be more appropriate.

Analysis of Operations

Target Corporation operates large-format general merchandise stores in the United States, including discount stores, moderate-priced promotional stores and traditional department stores, and additionally operates a small, rapidly growing on-line business. We drive incremental merchandise sales and profitability through increases in our comparable-store sales and through contribution of new store growth at Target. Additionally, we benefit from our credit card operations which strategically support each of our retail segments. We focus on delighting our guests by offering both everyday essentials and fashionable, differentiated merchandise at exceptional prices. Our ability to deliver a shopping experience that is preferred by our guests is supported by our strong supply chain and technology network, a devotion to innovation which is ingrained in our organization and culture and our disciplined approach to managing our current business and investing in future growth. Though our industry is highly competitive and subject to macro-economic conditions, we believe we are well-positioned to deliver continued profitable market share growth for many years to come.

On March 10, 2004, we began reviewing strategic alternatives for Mervyn's and Marshall Field's that include but are not limited to, the possible sale of one or both of these segments as ongoing businesses to existing retailers or other qualified buyers. The following Management's Discussion and Analysis, Consolidated Financial Statements, and Notes to Consolidated Financial Statements do not reflect any impact of any strategic alternatives as we are in the early stages of this review process.

Management's Discussion and Analysis is based on our Consolidated Financial Statements as shown on pages 26-29.



Total Revenues
(millions)

Revenues and Comparable-store Sales

Total revenues include retail sales and net credit card revenues. Net credit card revenues represent income derived from finance charges, late fees and other revenues from use of our Target Visa and proprietary credit cards. Comparable-store sales are sales from stores open longer than one year. Stores that were remodeled at their existing location and did not convert to a SuperTarget remain in the comparable-store sales calculation. Stores that have been converted to a SuperTarget or moved to a new location are included in the comparable-store sales calculation once they are open longer than one year.

In 2003, total revenues increased 9.7 percent and comparable-store sales increased 2.9 percent. Retail price deflation had a negative impact of approximately 3 percent on sales growth. At Target, which accounted for 86 percent of our total revenues, slightly more than half of our 12 percent increase in revenues was driven by new store expansion, while the rest of the increase resulted from a 4.4 percent increase in comparable-store sales and an increase in net credit card revenues. Mervyn's and Marshall Field's, which accounted for 7 percent and 5 percent of our total revenues, respectively, experienced a decline in revenues, primarily due to decreases in comparable-store sales.

In 2002, total revenues increased 10.3 percent and comparable-store sales increased 1.1 percent. Retail price deflation had a negative impact of approximately 3 percent on sales growth. At Target, which accounted for 84 percent of our total revenues, the increase was driven by new store expansion, an increase in net credit card revenues and a 2.2 percent increase in comparable-store sales. Mervyn's and Marshall Field's, which accounted for 9 percent and 6 percent of our total revenues, respectively, experienced a decline in revenues primarily due to decreases in comparable-store sales.

Revenues and Comparable-store Sales Growth

	2003		2002		2001	
	Revenues	**Comparable-store Sales**	Revenues	Comparable-store Sales	Revenues	Comparable-store Sales
Target	**12.0%**	**4.4%**	13.3%	2.2%	13.1%	4.1%
Mervyn's	**(6.9)**	**(7.6)**	(5.2)	(5.3)	(1.7)	(1.5)
Marshall Field's	**(4.0)**	**(2.6)**	(3.1)	(3.7)	(5.2)	(5.7)
Total	**9.7%**	**2.9%**	10.3%	1.1%	9.7%	2.7%

Revenues per Square Foot*

	2003	2002	2001
Target	**$282**	$278	$274
Mervyn's	**165**	178	187
Marshall Field's	**178**	180	186

**Thirteen-month average retail square feet.*

In 2004, we expect revenues to increase due to new store growth and an increase in comparable-store sales and net credit card revenues.

Gross Margin Rate

Gross margin rate represents gross margin (sales less cost of sales) as a percent of sales. Cost of sales primarily includes purchases, markdowns and other costs associated with our merchandise. These costs are partially offset by various forms of consideration earned or received from our vendors, which we refer to as "vendor income."

In 2003, our consolidated gross margin rate increased 0.5 percent to a rate of 32.0 percent primarily due to the adoption of Emerging Issues Task Force (EITF) Issue No. 02-16 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." The adoption resulted in a reclassification of a portion of our vendor income from selling, general and administrative expenses to cost of sales and had a slight negative impact on net earnings as described in the Notes to Consolidated Financial Statements on page 30.

At Target, gross margin rate improved due to the vendor income reclassification. Mervyn's gross margin rate improvement was primarily a result of the vendor income reclassification and efforts to lower purchase costs through improved negotiating programs that resulted in markup improvement, partially offset by an increase in markdowns. Marshall Field's gross margin rate increased due to the vendor income reclassification and reductions in purchase costs which resulted in markup improvement. These improvements were partially offset by an increase in markdowns.

In 2002, our consolidated gross margin rate expanded by almost a full percentage point to a rate of 31.5 percent from 30.6 percent. The growth is attributable to rate expansion at Target and Mervyn's, primarily due to reductions in purchase costs and improvements in markup during the year. These increases were partially offset by additional markdowns at Mervyn's and Marshall Field's and the mix impact of growth at Target, our lowest gross margin rate division.

Consolidated gross margin rate in 2004 is expected to be approximately equal to 2003. Gross margin rate at Target is expected to remain essentially even with that of 2003. We expect modest gross margin rate expansion at both Mervyn's and Marshall Field's to be offset by the mix impact of faster growth at Target, our lowest gross margin rate division.

Selling, General and Administrative Expense Rate

Our selling, general and administrative (SG&A) expense rate represents payroll, benefits, advertising, distribution, buying and occupancy, start-up and other expenses as a percentage of sales. SG&A expense excludes depreciation and amortization and expenses associated with our credit card operations, which are reflected separately in our Consolidated Results of Operations. In 2003, approximately $78 million of vendor income was recorded as an offset to SG&A expenses as it met the specific, incremental and identifiable criteria of EITF No. 02-16. Approximately $294 million and $272 million of vendor income was recorded as an offset to SG&A expenses in 2002 and 2001, respectively. This vendor income primarily represented advertising reimbursements.

In 2003, our SG&A expense rate increased to 22.9 percent compared to 22.0 percent in 2002. Over half of this increase is attributable to the reclassification of vendor income to cost of sales from SG&A expenses as described in the Notes to Consolidated Financial Statements on page 30. The remaining increase is principally due to a lack of sales leverage at both Mervyn's and Marshall Field's.

In 2002, our SG&A expense rate rose to 22.0 percent compared to 21.6 percent in 2001 because certain items such as medical expenses increased at a faster pace than sales. This effect was only partially offset by the mix impact of growth at Target, our lowest SG&A expense rate division.

In 2004, we expect our SG&A expense rate to increase slightly from 2003, reflecting our belief that a number of expenses will increase at a faster pace than sales. These include expenses related to our defined benefit plans, insurance and stock options, which we began expensing during 2003 under the prospective transition method in accordance with Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." We expect the effect of these increased expenses to be partially offset by the mix impact of growth at Target, our lowest SG&A expense rate division.

Depreciation and Amortization

In 2003, depreciation and amortization increased 8.9 percent to $1,320 million compared to 2002. In 2002, depreciation and amortization increased 12.4 percent to $1,212 million compared to 2001. The increase in both years is primarily due to new store growth at Target.

Pre-tax Segment Profit

Pre-tax segment profit is our core measure of profitability for the three segments and is a required disclosure for segment reporting under accounting principles generally accepted in the United States (GAAP).

In 2003, pre-tax segment profit increased 7.9 percent to $3,734 million, compared with $3,461 million in 2002. The increase was driven by growth at Target, which produced 93 percent of consolidated pre-tax segment profit. Mervyn's and Marshall Field's experienced a decrease in pre-tax segment profit compared to 2002.

Pre-tax segment profit increased 16.7 percent in 2002 to $3,461 million, compared with $2,965 million in 2001. The increase was driven by growth at Target, which produced 89 percent of consolidated pre-tax segment profit. Marshall Field's pre-tax segment profit in 2002 was essentially equal to 2001, while Mervyn's experienced a decline in pre-tax segment profit in 2002 compared to 2001.

A reconciliation of pre-tax segment profit to pre-tax earnings follows. Our segment disclosures may not be consistent with disclosures of other companies in the same line of business.

Pre-tax Segment Profit and as a Percent of Revenues

	Pre-tax Segment Profit			As a Percent of Revenues		
(millions)	**2003**	2002	2001	**2003**	2002	2001
Target	**$3,467**	$3,088	$2,546	**8.4%**	8.4%	7.8%
Mervyn's	**160**	238	286	**4.5**	6.2	7.1
Marshall Field's	**107**	135	133	**4.1**	5.0	4.8
Total pre-tax segment profit	**$3,734**	$3,461	$2,965	**7.9%**	8.0%	7.5%
Securitization adjustments:						
Loss	**-**	–	(67)			
Interest equivalent	**-**	–	(27)			
LIFO provision credit/(expense)	**27**	12	(8)			
Interest expense	**(559)**	(588)	(473)			
Other	**(242)**	(209)	(183)			
Earnings before taxes	**$2,960**	$2,676	$2,207			

In 2001, the $67 million pre-tax loss related to the required adoption of a new accounting standard applicable to securitized accounts receivable. The $27 million interest equivalent represented payments accrued to holders of sold securitized receivables prior to August 22, 2001 (discussed in detail in the Notes to Consolidated Financial Statements under Accounts Receivable and Receivable-backed Securities on page 31).

Interest Expense

In 2003, interest expense was $559 million, $29 million lower than in 2002. The decrease was due to a lower average portfolio interest rate and a smaller loss on debt called or repurchased, partially offset by higher average debt outstanding. The average portfolio interest rate in 2003 was 4.9 percent compared with 5.6 percent in 2002. The $297 million of debt called or repurchased during 2003 resulted in a loss of $15 million (approximately $.01 per share) and had an average interest rate of 7.8 percent and an average remaining life of 20 years.

In 2002, interest expense was $588 million, $88 million higher than the total of interest expense and interest equivalent in 2001. The increase was due to higher average debt outstanding and a greater loss on the early call or repurchase of debt, partially offset by a lower average portfolio interest rate. The average portfolio interest rate in 2002 was 5.6 percent compared with 6.4 percent in 2001. (For analytical purposes, the amounts that represented payments accrued to holders of sold securitized receivables prior to August 22, 2001 were considered interest equivalent as discussed in the Notes to Consolidated Financial Statements on page 31. After that date, such payments constituted interest expense.) In 2002 and 2001, we incurred losses of $34 million ($.02 per share) and $9 million (less than $.01 per share) from the early call or repurchase of $266 million and $144 million of debt, respectively. The debt called or repurchased had an average interest rate of 8.8 percent and 9.2 percent, respectively, and had an average remaining life of 19 years and 7 years, respectively.

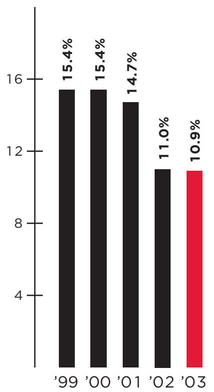
We adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections" in the first quarter of 2002. Under SFAS No. 145, gains and losses from the early extinguishment of debt are required to be included in interest expense and are not reflected as an extraordinary item. Prior year extraordinary items have been reclassified to reflect this change. The adoption of SFAS No. 145 had no impact on net earnings, cash flows or financial position. The requirements of SFAS No. 145 are discussed under New Accounting Pronouncements on page 25.

Excluding the effect of any early call or repurchase of debt, we expect interest expense in 2004 to remain essentially flat to 2003, as average debt outstanding and the average portfolio interest rate are not expected to change significantly.

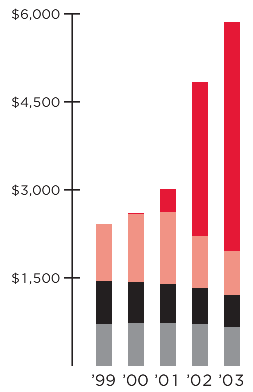
Credit Card Operations

Through our proprietary store-brand credit card programs, some of which have been available for decades, and our Target Visa credit card that was introduced nationally in 2001, we offer credit to qualified guests in each of our business segments. Our credit card programs strategically support our core retail operations and are an integral component of each business segment. Our credit card products support earnings growth by driving sales at our stores and through improvements in our credit card financial performance.

Our credit card revenues are primarily derived from finance charges, late fees and other revenues. Intracompany merchant fees are fees charged to our retail operations on a basis similar to fees charged by third-party credit card issuers. These fees are eliminated in consolidation. Third-party merchant fees are paid to us by merchants that have accepted the Target Visa credit card. In 2003, our credit card revenues increased to $1,479 million from $1,297 million, or 14 percent, due to continued growth in the Target Visa credit card portfolio. In 2002, our credit card revenues increased to $1,297 million from $899 million, or 44 percent, due primarily to additional revenues earned from the Target Visa credit card portfolio.



Credit Portfolio Yield



Average Receivables

(millions)

Target Visa · Target Guest Card · Mervyn's · Marshall Field's

Credit card expenses include marketing and account service activities that support our credit card portfolio, as well as bad debt expense. In 2003, our credit card expense increased to $838 million from $765 million, or 9.6 percent, primarily due to growth in our bad debt expense commensurate with the growth in our accounts receivable. In 2002, our credit card expenses increased to $765 million from $454 million, or 69 percent, due to substantial growth in our accounts receivable resulting from the Target Visa portfolio.

In 2003, 2002 and 2001, allowance for doubtful accounts as a percent of year-end receivables was 6.8 percent, 6.7 percent and 6.4 percent, respectively. The increase in 2003 and 2002 was primarily due to higher accounts receivable balances and increases in the incidence and severity of personal bankruptcies, among other factors.

We expect our 2004 credit operations to grow at a more modest rate than the substantial growth we experienced in 2003 and 2002. Our pre-tax credit card contribution as a percent of total average receivables is expected to continue to be in the range of 10 to 11 percent in 2004.

Credit Card Contribution to Segment Profit

(millions)	**2003**	2002	2001
Revenues:			
Finance charges, late fees and other revenues	**$1,300**	$1,126	$ 779
Merchant fees			
Intracompany	**97**	102	102
Third-party	**82**	69	18
Total revenues	**1,479**	1,297	899
Expenses:			
Bad debt provision	**532**	460	230
Operations and marketing	**306**	305	224
Total expenses	**838**	765	454
Pre-tax credit card contribution	**$ 641**	$ 532	$ 445
As a percent of total average receivables	**10.9%**	11.0%	14.7%

Receivables

(millions)	**2003**	2002	2001
Target			
Target Visa	**$4,190**	$3,774	$1,567
Proprietary card	**783**	827	1,063
Mervyn's proprietary card	**550**	626	706
Marshall Field's proprietary card	**672**	737	756
Total year-end receivables	**$6,195**	$5,964	$4,092
Past Due			
Accounts with three or more payments past due as a percent of total year-end receivables:			
Target Visa	**3.6%**	3.1%	0.5%
Proprietary cards	**4.7%**	5.1%	4.9%
Total past due	**4.0%**	3.8%	3.2%

Allowance for Doubtful Accounts

(millions)	**2003**	2002	2001
Allowance at beginning of year	**$ 399**	$ 261	$ 211
Bad debt provision	**532**	460	230
Net write-offs	**(512)**	(322)	(180)
Allowance at end of year	**$ 419**	$ 399	$ 261
As a percent of year-end receivables	**6.8%**	6.7%	6.4%

Other Credit Card Contribution Information*

(millions)	**2003**	2002
Total Revenues		
Target Visa	**$ 857**	$ 626
Proprietary cards	**$ 622**	$ 671
Total revenues as a percent of average receivables:		
Target Visa	**21.9%**	23.8%
Proprietary cards	**31.7%**	30.4%
Net Write-offs		
Target Visa	**$ 359**	$ 151
Proprietary cards	**$ 153**	$ 171
Net write-offs as a percent of average receivables:		
Target Visa	**9.2%**	5.8%
Proprietary cards	**7.8%**	7.7%
Average Receivables		
Target Visa	**$3,907**	$2,635
Proprietary cards	**1,960**	2,206
Total average receivables	**$5,867**	$4,841

**The Target Visa credit card does not reflect a full year of activity in 2001 and has been excluded due to lack of comparability.*

Fourth Quarter Results

Due to the seasonal nature of our business, fourth quarter operating results typically represent a substantially larger share of total year revenues and earnings due to the inclusion of the holiday shopping season.

Fourth quarter 2003 net earnings were $832 million, compared with $688 million in 2002. Earnings per share were $.91 for the quarter, compared with $.75 in 2002. Total revenues increased 10.7 percent and 13-week comparable-store sales increased 4.9 percent. Our pre-tax segment profit increased 17.3 percent to $1,513 million, primarily driven by growth at Target.

Fourth Quarter Pre-tax Segment Profit and Percent Change from Prior Year

(millions)	2003		2002		2001	
Target	**$1,380**	**18.5%**	$1,165	8.0%	$1,078	20.9%
Mervyn's	**74**	**(0.3)**	75	(42.9)	131	20.8
Marshall Field's	**59**	**15.6**	51	(18.9)	63	(20.2)
Total	**$1,513**	**17.3%**	$1,291	1.4%	$1,272	17.9%
LIFO provision	**27**		12		(8)	
Interest expense	**(130)**		(154)		(135)	
Other	**(72)**		(36)		(68)	
Earnings before taxes	**$1,338**		$1,113		$1,061	

Critical Accounting Estimates

Our analysis of operations and financial condition are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and the related disclosures of contingent assets and liabilities. In the Notes to Consolidated Financial Statements, we describe our significant accounting policies used in the preparation of the consolidated financial statements. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The following items in our consolidated financial statements require significant estimation or judgment:

Inventory and cost of sales We account for substantially all of our inventory and the related cost of sales under the retail inventory method using the LIFO basis. Under the retail inventory method, inventory is stated at cost, which is determined by applying a cost-to-retail ratio to each similar merchandise grouping's ending retail value. Since this inventory value is adjusted regularly to reflect market conditions, our inventory methodology reflects the lower of cost or market. We also reduce inventory for estimated losses related to shortage, based upon historical losses verified by prior physical inventory counts. Inventory also includes a LIFO provision that is calculated based on inventory levels, markup rates and internally generated retail price indices. Inventory is at risk of obsolescence if economic conditions change, such as shifting consumer demand, changing consumer credit markets, or increased competition, even though substantially all of our inventory sells in less than six months. Our vendor income and inventory are described in the Notes to Consolidated Financial Statements on pages 30 and 31, respectively.

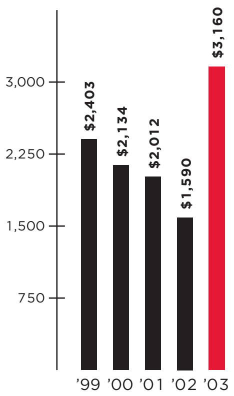
Allowance for doubtful accounts When receivables are recorded, an allowance for doubtful accounts in an amount equal to anticipated future write-offs is recognized. The allowance includes provisions for uncollectible finance charges and other credit fees. We estimate future write-offs based on delinquencies, risk scores, aging trends, industry risk trends and our historical experience. The allowance for doubtful accounts was $419 million or 6.8 percent of year-end receivables at January 31, 2004, compared to $399 million or 6.7 percent of year-end receivables at February 1, 2003. Management believes that the allowance for doubtful accounts is adequate to cover anticipated losses in our credit card accounts receivable under current conditions; however, significant deterioration in any of the factors mentioned above or in general economic conditions could materially change these expectations. Our accounts receivable and related allowance are described in the Notes to Consolidated Financial Statements on page 31.

Pension and postretirement health care accounting We fund and maintain three qualified defined benefit pension plans and maintain certain related non-qualified plans as well. Our pension costs are determined based on actuarial calculations using key assumptions including our expected long-term rate of return on qualified plan assets, discount rate and our estimate of future compensation increases. We also maintain a postretirement health care plan for certain retired employees. Postretirement health care costs are calculated based on actuarial calculations using key assumptions including a discount rate and health care cost trend rates. Our pension and postretirement health care benefits are further described in the Notes to Consolidated Financial Statements on pages 36-37.

Insurance/self-insurance We retain a portion of the risk related to certain general liability, workers' compensation, property loss and employee medical and dental claims. Liabilities associated with these losses are calculated for claims filed, and claims incurred but not yet reported, at our estimate of their ultimate cost, based upon analysis of historical data and actuarial estimates. General liability and workers' compensation liabilities are recorded at our estimate of their net present value; other liabilities are not discounted. Our expected loss accruals are based on estimates, and while we believe the amounts accrued are adequate, the ultimate loss may differ from the amounts provided. We maintain stop-loss coverage to limit the exposure related to certain risks.

Income taxes We pay income taxes based on the tax statutes, regulations and case law of the various jurisdictions in which we operate. Our effective income tax rate was 37.8 percent, 38.2 percent and 38.0 percent in 2003, 2002 and 2001, respectively. The income tax provision includes estimates for certain unresolved matters in dispute with state and federal tax authorities. Management believes the resolution of such disputes will not have a material impact on our financial statements. Our effective income tax rate in 2004 is expected to be approximately 37.8 percent. Our income taxes are further described in the Notes to Consolidated Financial Statements on page 34.

Analysis of Financial Condition



Cash Flow from Operations
(millions)

Liquidity and Capital Resources

Our financial condition remains strong. In assessing our financial condition, management considers factors such as cash flows provided by operations, capital expenditures and debt service obligations. Cash flow provided by operations increased to $3.2 billion in 2003 from $1.6 billion in 2002, primarily due to a smaller increase in our gross accounts receivable balance and a higher net income.

During 2003, our total gross year-end receivables increased 3.9 percent, or $231 million, to $6,195 million. The growth in year-end receivables was driven by modest growth in issuance and usage of the Target Visa credit card during 2003. Average total receivables in 2003 increased 21 percent reflecting the substantial growth of the Target Visa credit card portfolio throughout 2002.

During 2003, inventory levels increased $583 million, or 12.2 percent. This growth was more than fully funded by the $764 million increase in accounts payable over the same period. The increase in inventory was primarily a result of our store square footage growth.

In January 1999 and March 2000, our Board of Directors authorized the aggregate repurchase of $2 billion of our common stock. Since that time, we have repurchased a total of 42 million shares of our common stock at a total cost of $1,247 million ($29.39 per share), net of the premium from exercised and expired put options. In 2001, common stock repurchases were essentially suspended. Consequently, common stock repurchases did not have a material impact on our 2003 or 2002 net earnings and financial position.

Our financing strategy is to ensure liquidity and access to capital markets, to manage the amount of floating-rate debt and to maintain a balanced spectrum of debt maturities. Within these parameters, we seek to minimize our cost of borrowing.

A key to our access to liquidity and capital markets is maintaining strong investment-grade debt ratings.

Credit Ratings

	Moody's	Standard and Poor's	Fitch
Long-term debt	A2	A+	A
Commercial paper	P-1	A-1	F1
Securitized receivables	Aaa	AAA	n/a

Interest Coverage Ratio

We view interest coverage as an important indicator of our credit-worthiness.

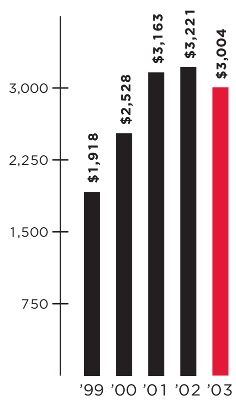
Interest coverage ratio represents the ratio of pre-tax earnings before fixed charges to fixed charges (interest expense and the interest portion of rent expense). Our interest coverage ratio was 5.5x, 4.9x and 4.7x in 2003, 2002 and 2001, respectively.

Further liquidity is provided by $1.6 billion of committed lines of credit obtained through a group of 26 banks. Of these credit lines, an $800 million credit facility expires in June 2004 but includes a one-year term-out option to June 2005. The remaining $800 million credit facility expires in June 2008. There were no balances outstanding at any time during 2003 or 2002 under these agreements. These committed credit lines as well as most of our long-term debt obligations contain certain financial covenants. We are, and expect to remain, well within the compliance requirements of these covenants. No material debt instrument contains provisions requiring acceleration of payment upon a debt rating downgrade.

Management believes that cash flows from operations, proceeds from long-term financing activities and issuance of short-term debt will be sufficient to fund any seasonal buildup in inventories and meet other cash requirements, including the refinancing of existing long-term debt, growth in receivables and projected capital expenditures.

Capital Expenditures

Capital expenditures were $3,004 million in 2003, compared with $3,221 million in 2002 and $3,163 million in 2001. Our modestly lower spending level in 2003 is due to a larger mix of leased stores and our ability to accomplish our expansion plans with less capital. Investment in Target accounted for 90 percent of capital expenditures in 2003 and 92 percent of capital expenditures in both 2002 and 2001. Net property and equipment increased $1,662 million in 2003, compared with an increase of $1,774 million in 2002. Over the past five years, Target's net retail square footage has grown at a compound annual rate of 10 percent, at the higher end of our objective of 8 to 10 percent in new net growth annually.



Capital Expenditures
(millions)

Approximately 74 percent and 66 percent of total capital expenditures in 2003 and 2002, respectively, were for new stores, expansions and remodels. Other capital investments were for information system hardware and software, distribution capacity and other infrastructure to support store growth, primarily at Target.

Number of Stores

	February 1, 2003	Opened	Closed	**January 31, 2004**
Target*	1,147	101	23	**1,225**
Mervyn's	264	3	1	**266**
Marshall Field's	64	–	2	**62**
Total	1,475	104	26	**1,553**

Target includes 118 and 94 SuperTargets at January 31, 2004 and February 1, 2003, respectively.

In 2004, we expect to invest $3.2 billion to $3.4 billion, mostly in new square footage for Target stores and the distribution infrastructure and systems to support this growth. Our estimated 2004 store opening program at Target reflects net square footage growth of approximately 8 to 9 percent, or 95 to 100 total new stores partially offset by closings and relocations. In addition, we expect to remodel approximately 70 stores in 2004.

Owned and Leased Store Locations

At year-end 2003, owned, leased and "combined" (generally an owned building on leased land) store locations by operating segment were as follows:

	Owned	Leased	Combined	**Total**
Target	987	87	151	**1,225**
Mervyn's	155	62	49	**266**
Marshall Field's	49	11	2	**62**
Total	1,191	160	202	**1,553**

Commitments and Contingencies

At January 31, 2004, our debt, lease and royalty contractual obligations were as follows:

Payments Due by Period

(millions) Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt*	$10,828	$ 857	$1,254	$2,774	$ 5,943
Interest payments**	6,062	587	1,103	912	3,460
Capital lease obligations***	264	21	39	38	166
Operating leases***	1,778	163	286	236	1,093
Royalties	80	42	38	–	–
Contractual cash obligations	$19,012	$1,670	$2,720	$3,960	$10,662

Required principal payments only. Excludes SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," fair market value adjustments recorded in long-term debt.

Includes payments on $1.5 billion of floating rate long-term debt secured by credit card receivables, of which $750 million matures in July 2004 and $750 million matures in 2007. These payments are calculated assuming rates of 1.25%, 2.25%, 3.25% and 4.25% for 2004, 2005, 2006 and 2007, respectively. Excludes payments received or made relating to interest rate swaps discussed on pages 33-34.

Total contractual lease payments.

Commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately $545 million at year-end 2003.

Throughout the year, we enter into various commitments to purchase inventory. In addition to the accounts payable reflected in our Statements of Financial Position on page 27, we had commitments with various vendors for the purchase of inventory as of January 31, 2004. The previous table excludes these commitments because these purchase commitments are cancelable by their terms.

Legal Proceedings

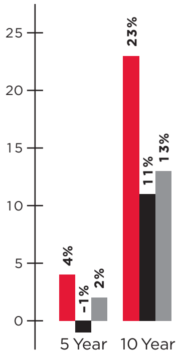
We are exposed to claims and litigation arising out of the ordinary course of business and use various methods to resolve those matters in a manner that serves the best interest of our shareholders and other constituents. The dispute resolution methods that we use include vigorous litigation, when necessary, and alternatives such as settlement discussions, where appropriate, to reduce the costs of litigation. Our policy is to fully disclose pending lawsuits and other known claims that we expect may have a material impact on our results of operations or financial condition. After consulting with legal counsel, management does not believe that any currently identified claims or litigation meet this criterion.

Market Risk

Our exposure to market risk results primarily from fluctuations in interest rates on our debt obligations and from the effect of equity market returns on our non-qualified defined contribution plans. We hold derivative instruments primarily to manage our exposure to these risks and all derivative instruments are matched against specific debt obligations or other liabilities. There have been no material changes in the primary risk exposures or management of the risks since the prior year. Our debt and interest rate swap instruments outstanding at January 31, 2004, including applicable interest rates, are discussed in the Notes to Consolidated Financial Statements on pages 33-34.

The annualized effect of a one percentage point change in floating interest rates on our interest rate swap agreements and other floating rate debt obligations at January 31, 2004, would be to change interest expense by approximately $36 million. The annualized effect of a one percentage point change in equity market returns on our non-qualified defined contribution plans (inclusive of the effect of derivative instruments used to hedge or manage these exposures) would not be significant.

Performance Objectives



Total Annualized Return

- Target
- S&P 500
- Peer group

Shareholder Return

Our primary objective is to maximize shareholder value over time through a combination of share price appreciation and dividend income while maintaining a prudent and flexible capital structure. Our total annualized return to shareholders (including reinvested dividends) over the last five years averaged 4.2 percent, returning about $123 for each $100 invested in our stock at the beginning of this period. The peer group we refer to in the adjacent graph represents those companies included in the S&P 500 Retailing and S&P 500 Food and Drug Retailing Indices, and is the group we refer to in our proxy statement.

Measuring Value Creation

We measure value creation internally using a form of Economic Value Added (EVA), which we define as after-tax segment profit less a capital charge for all investment employed. The capital charge is an estimate of our after-tax cost of capital adjusted for the age of our stores, recognizing that mature stores inherently have higher returns than newly opened stores. We use a benchmark of 9 percent for the estimated after-tax cost of capital invested in our retail operations and a benchmark of 5 percent for capital invested in our credit card operations, as a result of its ability to support higher debt levels. We expect to continue to generate returns in excess of these benchmarks, thereby producing EVA.

EVA is used to evaluate our performance and to guide capital investment decisions. A significant portion of executive incentive compensation is tied to the achievement of targeted levels of annual EVA generation. We believe that managing our business with a focus on EVA helps achieve our objective of average annual earnings per share growth of 15 percent or more over time. Earnings per share has grown at a compound annual rate of 15 percent over the last five years.

New Accounting Pronouncements

2004 Adoptions

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51" (FIN No. 46). FIN No. 46 will be effective no later than the end of the first reporting period that ends after March 15, 2004. FIN No. 46 requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership of a majority voting interest in the entity. We do not expect the adoption of FIN No. 46 to have a material impact on our net earnings, cash flows or financial position.

2003 Adoptions

In the first quarter of 2003, we adopted EITF No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Under the new guidance, cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should be classified as a reduction in cost of sales. If the cash consideration is for assets or services delivered to the vendor, it should be characterized as revenue. If the cash consideration is a reimbursement of costs incurred to sell the vendor's products, it should be characterized as a reduction of that cost. This guidance had no material impact on sales, cash flows or financial position for any period, and had a slight negative impact on net earnings. Our accounting policy regarding vendor income is discussed in the Notes to Consolidated Financial Statements on page 30.

In the first quarter of 2003, we adopted SFAS No. 123, "Accounting for Stock-Based Compensation," in accordance with the prospective transition method prescribed in SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." The fair value based method has been applied prospectively to awards granted subsequent to February 1, 2003 (the last day of our 2002 fiscal year). The adoption of this method increased compensation expense by less than $.01 per share in 2003. Our accounting policy regarding stock-based compensation is discussed in the Notes to Consolidated Financial Statements on page 30.

In the first quarter of 2003, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." The adoption did not have an impact on current year or previously reported net earnings, cash flows or financial position.

In the first quarter of 2003, we adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred

instead of recognizing the liability at the date of commitment to an exit plan as was previously allowed. The adoption of SFAS No. 146 did not have a material impact on current year or previously reported net earnings, cash flows or financial position.

In the second quarter of 2003, we adopted SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, and is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 had no material impact on current year or previously reported net earnings, cash flows or financial position.

In the third quarter of 2003, we adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 clarifies the classification and measurement of certain financial instruments with characteristics of both liabilities and equity, and is effective for financial instruments entered into or modified after May 31, 2003, or otherwise for the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 had no material impact on current year or previously reported net earnings, cash flows or financial position.

In the fourth quarter of 2003, we adopted EITF's Issue No. 03-10 "Application of Issue 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers" (EITF No. 03-10) which amends EITF No. 02-16. According to the amended guidance, if certain criteria are met, consideration received by a reseller in the form of reimbursement from a vendor for honoring the vendor's sales incentives offered directly to consumers (i.e. manufacturer's coupons) should not be recorded as a reduction of the cost of the reseller's purchases from the vendor. The adoption of EITF No. 03-10 did not have a material impact on current year or previously reported net earnings, cash flows or financial position. Our accounting policy regarding vendor income is discussed in the Notes to Consolidated Financial Statements on page 30.

In the fourth quarter of 2003, we adopted SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No. 87, 88 and 106," which revises the annual and interim disclosure requirements about pension and other postretirement benefits.

2002 Adoptions

In the first quarter of 2002, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," which superseded Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets." Under the new statement, goodwill and intangible assets that have indefinite useful lives are no longer amortized but rather reviewed at least annually for impairment, or more frequently if impairment indicators arise. In both 2003 and 2002, the adoption of this statement reduced annual amortization expense by approximately $10 million (less than $.01 per share). Our accounting policy regarding intangible assets is discussed in the Notes to Consolidated Financial Statements on page 32.

In the first quarter of 2002, we adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The guidance requires companies to review long-lived assets when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In both 2003 and 2002, impairment losses resulted in a financial statement impact of less than $.01 per share. Our accounting policy regarding impairment of long-lived assets is discussed in the Notes to Consolidated Financial Statements on page 32.

In the first quarter of 2002, we adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Previously, all gains and losses from the early extinguishment of debt were required to be aggregated and classified as an extraordinary item in the Consolidated Results of Operations, net of the related tax effect. Under SFAS No. 145, gains and losses from the early extinguishment of debt are included in interest expense. Prior year extraordinary items have been reclassified to reflect this change. The adoption of SFAS No. 145 had no impact on net earnings, cash flows or financial position.

Forward-looking Statements

This Annual Report, including the preceding Management's Discussion and Analysis, contains forward-looking statements regarding our performance, liquidity and the adequacy of our capital resources. Those statements are based on our current assumptions and expectations and are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. We caution that the forward-looking statements are qualified by the risks and challenges posed by increased competition (including the effects of competitor liquidation activities), shifting consumer demand, changing consumer credit markets, changing health care costs, changing capital markets and general economic conditions, hiring and retaining effective team members, sourcing merchandise from domestic and international vendors, investing in new business strategies, achieving our growth objectives, the review of strategic alternatives, the outbreak of war and other significant national and international events, and other risks and uncertainties. As a result, while we believe that there is a reasonable basis for the forward-looking statements, you should not place undue reliance on those statements. You are encouraged to review Exhibit (99)C attached to our Form 10-K Report for the year-ended January 31, 2004, which contains additional important factors that may cause actual results to differ materially from those projected in the forward-looking statements.

CONSOLIDATED RESULTS OF OPERATIONS

(millions, except per share data)	**2003**	2002	2001
Sales	**$46,781**	$42,722	$39,114
Net credit card revenues	**1,382**	1,195	712
Total revenues	**48,163**	43,917	39,826
Cost of sales	**31,790**	29,260	27,143
Selling, general and administrative expense	**10,696**	9,416	8,461
Credit card expense	**838**	765	463
Depreciation and amortization	**1,320**	1,212	1,079
Interest expense	**559**	588	473
Earnings before income taxes	**2,960**	2,676	2,207
Provision for income taxes	**1,119**	1,022	839
Net earnings	**$ 1,841**	$ 1,654	$ 1,368
Basic earnings per share	**$ 2.02**	$ 1.82	$ 1.52
Diluted earnings per share	**$ 2.01**	$ 1.81	$ 1.50
Weighted average common shares outstanding:			
Basic	**911.0**	908.0	901.5
Diluted	**917.1**	914.0	909.8

See Notes to Consolidated Financial Statements throughout pages 30-39.

(millions)	**January 31, 2004**	February 1, 2003
Assets		
Cash and cash equivalents	**$ 716**	$ 758
Accounts receivable, net	**5,776**	5,565
Inventory	**5,343**	4,760
Other	**1,093**	852
Total current assets	**12,928**	11,935
Property and equipment		
Land	**3,629**	3,236
Buildings and improvements	**13,091**	11,527
Fixtures and equipment	**5,432**	4,983
Construction-in-progress	**995**	1,190
Accumulated depreciation	**(6,178)**	(5,629)
Property and equipment, net	**16,969**	15,307
Other	**1,495**	1,361
Total assets	**$31,392**	$28,603
Liabilities and shareholders' investment		
Accounts payable	**$ 5,448**	$ 4,684
Accrued liabilities	**1,618**	1,545
Income taxes payable	**382**	319
Current portion of long-term debt and notes payable	**866**	975
Total current liabilities	**8,314**	7,523
Long-term debt	**10,217**	10,186
Deferred income taxes and other	**1,796**	1,451
Shareholders' investment		
Common stock*	**76**	76
Additional paid-in-capital	**1,341**	1,256
Retained earnings	**9,645**	8,107
Accumulated other comprehensive income	**3**	4
Total shareholders' investment	**11,065**	9,443
Total liabilities and shareholders' investment	**$31,392**	$28,603

* **Common Stock** *Authorized 6,000,000,000 shares, $.0833 par value; 911,808,051 shares issued and outstanding at January 31, 2004; 909,801,560 shares issued and outstanding at February 1, 2003.*

Preferred Stock *Authorized 5,000,000 shares, $.01 par value; no shares were issued or outstanding at January 31, 2004 or February 1, 2003.*

See Notes to Consolidated Financial Statements throughout pages 30-39.

(millions)	**2003**	2002	2001
Operating activities			
Net earnings	**$ 1,841**	$ 1,654	$ 1,368
Reconciliation to cash flow:			
Depreciation and amortization	**1,320**	1,212	1,079
Bad debt provision	**532**	460	230
Deferred tax provision	**249**	248	49
Loss on disposal of fixed assets, net	**54**	67	52
Other non-cash items affecting earnings	**11**	159	160
Changes in operating accounts providing/(requiring) cash:			
Accounts receivable	**(744)**	(2,194)	(1,193)
Inventory	**(583)**	(311)	(201)
Other current assets	**(255)**	15	(91)
Other assets	**(196)**	(174)	(178)
Accounts payable	**764**	524	584
Accrued liabilities	**57**	(21)	29
Income taxes payable	**91**	(79)	124
Other	**19**	30	–
Cash flow provided by operations	**3,160**	1,590	2,012
Investing activities			
Expenditures for property and equipment	**(3,004)**	(3,221)	(3,163)
Increase in receivable-backed securities	**–**	–	(174)
Proceeds from disposals of property and equipment	**85**	32	32
Other	**–**	–	(5)
Cash flow required for investing activities	**(2,919)**	(3,189)	(3,310)
Financing activities			
Decrease in notes payable, net	**(100)**	–	(808)
Additions to long-term debt	**1,200**	3,153	3,250
Reductions of long-term debt	**(1,172)**	(1,071)	(793)
Dividends paid	**(237)**	(218)	(203)
Repurchase of stock	**–**	(14)	(20)
Other	**26**	8	15
Cash flow (required for)/provided by financing activities	**(283)**	1,858	1,441
Net (decrease)/increase in cash and cash equivalents	**(42)**	259	143
Cash and cash equivalents at beginning of year	**758**	499	356
Cash and cash equivalents at end of year	**$ 716**	$ 758	$ 499

Amounts presented herein are on a cash basis and therefore may differ from those shown in other sections of this Annual Report. Cash paid for income taxes was $781 million, $853 million and $666 million during 2003, 2002 and 2001, respectively. Cash paid for interest (including interest capitalized) was $550 million, $526 million and $477 million during 2003, 2002 and 2001, respectively.

See Notes to Consolidated Financial Statements throughout pages 30-39.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

(millions, except footnotes)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
February 3, 2001	897.8	$75	$ 902	$5,542	$ –	$ 6,519
Consolidated net earnings	–	–	–	1,368	–	1,368
Dividends declared	–	–	–	(203)	–	(203)
Repurchase of stock	(.5)	–	–	(20)	–	(20)
Issuance of stock for ESOP	2.6	–	89	–	–	89
Stock options and awards:						
Tax benefit	–	–	63	–	–	63
Proceeds received, net	5.3	–	44	–	–	44
February 2, 2002	905.2	75	1,098	6,687	–	7,860
Consolidated net earnings	–	–	–	1,654	–	1,654
Other comprehensive income	–	–	–	–	4	4
Total comprehensive income						1,658
Dividends declared	–	–	–	(218)	–	(218)
Repurchase of stock	(.5)	–	–	(16)	–	(16)
Issuance of stock for ESOP	3.0	1	105	–	–	106
Stock options and awards:						
Tax benefit	–	–	26	–	–	26
Proceeds received, net	2.1	–	27	–	–	27
February 1, 2003	909.8	76	1,256	8,107	4	9,443
Consolidated net earnings	–	–	–	1,841	–	1,841
Other comprehensive income	–	–	–	–	(1)	(1)
Total comprehensive income						1,840
Dividends declared	–	–	–	(246)	–	(246)
Repurchase of stock	(1.5)	–	–	(57)	–	(57)
Issuance of stock for ESOP	0.6	–	17	–	–	17
Stock options and awards:						
Tax benefit	–	–	28	–	–	28
Proceeds received, net	2.9	–	40	–	–	40
January 31, 2004	**911.8**	**$76**	**$1,341**	**$9,645**	**$3**	**$11,065**

Common Stock *Authorized 6,000,000,000 shares, $.0833 par value; 911,808,051 shares issued and outstanding at January 31, 2004; 909,801,560 shares issued and outstanding at February 1, 2003; 905,164,702 shares issued and outstanding at February 2, 2002.*

In January 1999 and March 2000, our Board of Directors authorized the aggregate repurchase of $2 billion of our common stock. In 2001, common stock repurchases under our program were essentially suspended. Our common stock repurchases are recorded net of the premium received from put options. Repurchases are made primarily in open market transactions, subject to market conditions.

Our common stock repurchase program has included the sale of put options that entitle the holder to sell shares of our common stock to us, at a specified price, if the holder exercises the option. No put options were sold during or were outstanding at the end of 2003, 2002 or 2001.

Preferred Stock *Authorized 5,000,000 shares, $.01 par value; no shares were issued or outstanding at January 31, 2004, February 1, 2003 or February 2, 2002.*

Junior Preferred Stock Rights *In 2001, we declared a distribution of preferred share purchase rights. Terms of the plan provide for a distribution of one preferred share purchase right for each outstanding share of our common stock. Each right will entitle shareholders to buy one twelve-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $125.00, subject to adjustment. The rights will be exercisable only if a person or group acquires ownership of 20 percent or more of our common stock or announces a tender offer to acquire 30 percent or more of our common stock.*

Dividends *Dividends declared per share were $0.27, $0.24 and $0.225 in 2003, 2002 and 2001, respectively.*

See Notes to Consolidated Financial Statements throughout pages 30-39.

Summary of Accounting Policies

Organization Target Corporation (the Corporation) is a general merchandise retailer, comprised of three operating segments: Target, Mervyn's and Marshall Field's. Our segments are primarily determined by the nature of the products and services offered to our guests. Target, an upscale discount chain located in 47 states, contributed 86 percent of our 2003 total revenues. Mervyn's, a middle-market promotional department store located in 14 states in the West, South and Midwest, contributed 7 percent of total revenues. Marshall Field's (including stores formerly named Dayton's and Hudson's), a traditional department store located in 8 states in the upper Midwest, contributed 5 percent of total revenues. Management measures segment performance based on pre-tax segment profit, which includes credit card operations. Credit card operations drive revenue growth at each segment and are considered an integral component of our retail operations. Business segment comparisons are presented on page 38.

Consolidation The financial statements include the balances of the Corporation and its subsidiaries after elimination of material intercompany balances and transactions. All material subsidiaries are wholly owned.

Use of Estimates The preparation of our financial statements, in conformity with accounting principles generally accepted in the United States (GAAP), requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates.

Fiscal Year Our fiscal year ends on the Saturday nearest January 31. Unless otherwise stated, references to years in this report relate to fiscal years rather than to calendar years. Fiscal years 2003, 2002 and 2001 each consisted of 52 weeks.

Reclassifications Certain prior year amounts have been reclassified to conform to the current year presentation.

Stock-based Compensation In 2003, we adopted Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," in accordance with the prospective transition method prescribed in SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" and began recognizing compensation expense for stock options granted during the year. Compensation expense is reflected in selling, general and administrative expenses. Prior to 2003, we accounted for stock option awards under the intrinsic value method prescribed in Accounting Principles Board (APB) No. 25, "Accounting for Stock Issued to Employees" which resulted in no compensation expense because the exercise price of the stock options was equal to the fair market value of the underlying stock on the grant date. The pro forma impact of accounting for those awards at fair value is disclosed on page 35.

Revenues

Revenue from retail sales is recognized at the time of sale. Commissions earned on sales generated by leased departments are included within sales and were $38 million in 2003, $33 million in 2002 and $37 million in 2001. Net credit card revenues are comprised of finance charges and late fees from credit card holders, as well as third-party merchant fees earned from the use of our Target Visa credit card. Net credit card revenues are recognized according to the contractual provisions of each applicable credit card agreement. If an account is written-off, any uncollected finance charges or late fees are recorded as a reduction of credit card revenue. The amount of our retail sales charged to our credit cards was $5.3 billion, $5.4 billion and $5.6 billion in 2003, 2002 and 2001, respectively. Prior to August 22, 2001, net credit card revenues are net of the payments made to holders of publicly held receivable-backed securities.

Consideration Received from Vendors

We collect vendor income primarily as a result of our promotional, advertising and compliance programs. Promotional and advertising allowances are intended to offset our costs of promoting and selling the vendor's merchandise in our stores and are recognized when we incur the cost or complete the promotion. Under our compliance programs, vendors are charged for merchandise shipments that do not meet our requirements, such as late or incomplete shipments, and we record these allowances when the violation occurs. Vendor income either reduces our inventory costs or our operating expenses based on the requirements of Emerging Issues Task Force (EITF) Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" as discussed below.

In the first quarter of 2003, we adopted EITF No. 02-16. In accordance with EITF No. 02-16, certain vendor income items have been reclassified from operating expenses to inventory purchases and recognized into income as the vendors' merchandise is sold. The guidance was applied on a prospective basis only as required by EITF No. 02-16. This reclassification had no material impact on sales, cash flows or financial position for any period, and had a slight negative impact on net earnings.

In the fourth quarter of 2003, we adopted EITF No. 03-10, "Application of Issue 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers," which amends EITF No. 02-16. The adoption of EITF No. 03-10 did not have a material impact on net earnings, cash flows or financial position. The requirements of EITF No. 02-16 and EITF No. 03-10 are discussed in Management's Discussion and Analysis on pages 24-25.

Buying and Occupancy Expenses

Buying expenses primarily consist of salaries and expenses incurred by the Corporation's merchandising operations, while our occupancy expenses primarily consist of rent, depreciation, property taxes and other operating costs of our retail and distribution facilities. Buying and occupancy expenses classified in selling, general and administrative expenses were $1.5 billion, $1.4 billion and $1.2 billion in 2003, 2002 and 2001, respectively. In addition, we recorded $1 billion, $934 million and $814 million of depreciation expense for our retail and distribution facilities in 2003, 2002 and 2001, respectively.

Advertising Costs

Advertising costs, included in selling, general and administrative expense, are expensed as incurred and were $1,249 million, $962 million and $924 million for 2003, 2002 and 2001, respectively. Advertising vendor income recorded within advertising expense was approximately $78 million, $251 million and $231 million for 2003, 2002 and 2001, respectively.

Earnings per Share

Basic earnings per share (EPS) is net earnings divided by the average number of common shares outstanding during the period. Diluted EPS includes the incremental shares that are assumed to be issued on the exercise of stock options. Shares issuable upon exercise of approximately 4.5 million options outstanding at January 31, 2004 were not included in the dilutive earnings per share calculation because the effect would have been antidilutive. At February 1, 2003, 13.2 million shares were excluded from the dilutive earnings per share calculation. No such shares were excluded from the dilutive earnings per share calculation at February 2, 2002.

	Basic EPS			Diluted EPS		
(millions, except per share data)	**2003**	2002	2001	**2003**	2002	2001
Net earnings	**$1,841**	$1,654	$1,368	**$1,841**	$1,654	$1,368
Basic weighted average common shares outstanding	**911.0**	908.0	901.5	**911.0**	908.0	901.5
Stock options	**-**	–	–	**6.1**	6.0	8.3
Weighted average common shares outstanding	**911.0**	908.0	901.5	**917.1**	914.0	909.8
Earnings per share	**$ 2.02**	$ 1.82	$ 1.52	**$ 2.01**	$ 1.81	$ 1.50

Other Comprehensive Income

Other comprehensive income includes revenues, expenses, gains and losses that are excluded from net earnings under GAAP. In 2003 and 2002, it primarily included gains and losses on certain hedge transactions and the change in our minimum pension liability, net of related taxes.

Cash Equivalents

Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase and were $244 million, $357 million and $84 million in 2003, 2002 and 2001, respectively.

Accounts Receivable and Receivable-backed Securities

Accounts receivable is recorded net of an allowance for expected losses. The allowance, recognized in an amount equal to the anticipated future write-offs based on delinquencies, risk scores, aging trends, industry risk trends and our historical experience, was $419 million at January 31, 2004 and $399 million at February 1, 2003.

Through our special purpose subsidiary, Target Receivables Corporation (TRC), we transfer, on an ongoing basis, substantially all of our receivables to the Target Credit Card Master Trust (the Trust) in return for certificates representing undivided interests in the Trust's assets. TRC owns the undivided interest in the Trust's assets, other than the Trust's assets securing the financing transactions entered into by the Trust and the 2 percent of Trust assets held by Retailers National Bank (RNB). RNB is a wholly owned subsidiary of the Corporation that also services receivables. The Trust assets and the related income and expenses are reflected in each operating segment's assets and operating results based on the origin of the credit card giving rise to the receivable.

Concurrent with our August 22, 2001 issuance of receivable-backed securities from the Trust, SFAS No. 140 (which replaced SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," in its entirety) became the accounting guidance applicable to such transactions. While this accounting requires secured financing treatment of the securities issued by the Trust on our consolidated financial statements, the assets within the Trust are still considered sold to our wholly owned, bankruptcy remote subsidiary, TRC, and are not available to general creditors of the Corporation.

Beginning on August 22, 2001, our consolidated financial statements reflected the obligation to holders of previously sold receivable-backed securities as debt of TRC and the receivables at fair value in place of the previously recorded retained interests related to the sold securities. This resulted in a pre-tax charge of $67 million ($.05 per share). On August 22, 2001, the Trust's entire portfolio of receivables was reflected on our consolidated financial statements at its fair value, which was based upon the expected performance of the underlying receivables portfolio. At that point in time, fair value was equivalent in amount to face value, net of an appropriate allowance.

Prior to August 22, 2001, income on the receivable-backed securities was accrued based on the effective interest rate applied to its cost basis, adjusted for accrued interest and principal paydowns. We monitored impairment of receivable-backed securities based on fair value. Permanent impairments were charged to earnings through credit expense in the period in which it was determined that the receivable-backed securities' carrying value was greater than their fair value. Permanent impairment charges on the receivables underlying the receivable-backed securities portfolio were $89 million in 2001. Permanent impairment charges in 2001 include only those losses prior to the consolidation of our special purpose entity on August 22, 2001.

Inventory

Substantially all of our inventory and the related cost of sales is accounted for under the retail inventory accounting method using the last-in, first-out (LIFO) basis. Inventory is stated at the lower of LIFO cost or market. The cumulative LIFO provision was $25 million and $52 million at year-end 2003 and 2002, respectively.

Inventory

(millions)	**January 31, 2004**	February 1, 2003
Target	**$4,282**	$3,748
Mervyn's	**486**	486
Marshall Field's	**326**	324
Other	**249**	202
Total inventory	**$5,343**	$4,760

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives. Depreciation expense for the years 2003, 2002 and 2001 was $1,286 million, $1,183 million and $1,049 million, respectively. Accelerated depreciation methods are generally used for income tax purposes. Repair and maintenance costs were $453 million, $416 million and $386 million in 2003, 2002 and 2001, respectively.

Estimated useful lives by major asset category are as follows:

Asset	Life (in years)
Buildings and improvements	8 – 39
Fixtures and equipment	4 – 15
Computer hardware and software	4

We adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" in the first quarter of 2002. In accordance with this guidance, all long-lived assets are reviewed when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The requirements of SFAS No. 144 are discussed in Management's Discussion and Analysis on page 25.

We review most assets at the store level, which is the lowest level of assets for which there are identifiable cash flows. The carrying amount of the store assets is compared to the expected undiscounted future cash flows to be generated by those assets over the estimated remaining useful life of the primary asset. Cash flows are projected for each store based upon historical results and expectations. In cases where the expected future cash flows and fair value are less than the carrying amount of the assets, those stores are considered impaired and the assets are written down to fair value. Fair value is based on appraisals or other reasonable methods to estimate fair value. Impairment losses are included in depreciation expense for held and used assets and included within selling, general and administrative expense on assets classified as held for sale. Our fixed asset impairment tests, performed in accordance with the applicable accounting guidance, assumed each of our segments would continue indefinitely. Changes in these assumptions could impact the results of our analysis. In both 2003 and 2002, impairment losses resulted in a financial statement impact of less than $.01 per share.

Goodwill and Intangible Assets

Goodwill and intangible assets are recorded within other long-term assets at cost less accumulated amortization. Amortization is computed on intangible assets with definite useful lives using the straight-line method over estimated useful lives that range from three to fifteen years. Amortization expense for the years 2003, 2002 and 2001 was $34 million, $29 million and $30 million, respectively. At January 31, 2004 and February 1, 2003, net goodwill and intangible assets were $364 million and $376 million, respectively. These assets included $155 million of goodwill and intangible assets with indefinite useful lives in both years, principally associated with Marshall Field's and target.direct.

As required, we adopted SFAS No. 142, "Goodwill and Other Intangible Assets," during the first quarter of 2002. In 2003 and 2002, the adoption of this statement reduced annual amortization expense by approximately $10 million (less than $.01 per share). The requirements of SFAS No. 142 are discussed in Management's Discussion and Analysis on page 25.

Discounted cash flow models were used in determining fair value for the purposes of the required annual goodwill impairment analysis. Management used other market data to validate the results of our analysis. No impairments were recorded in 2003, 2002 and 2001 as a result of the tests performed.

Other Long-term Assets

In addition to goodwill and intangible assets discussed above, the major components of other long-term assets at January 31, 2004 included pre-funded pension benefits, investments, deferred financing costs and derivatives. The increase in the long-term asset balance is primarily due to pre-funded pension contributions of $200 million partially offset by a $43 million reduction in the value of derivative assets that were outstanding at year-end. Our pension plan contributions are disclosed on page 36 and our derivative transactions are discussed on pages 33-34.

Accounts Payable

Our accounting policy is to reduce accounts payable when checks to vendors clear the bank from which they were drawn. Outstanding checks included in accounts payable were $1,325 million and $1,125 million at year-end 2003 and 2002, respectively.

Lines of Credit

At January 31, 2004, two committed credit agreements totaling $1.6 billion were in place through a group of 26 banks at specified rates. There were no balances outstanding at any time during 2003 or 2002 under these agreements.

Commitments and Contingencies

At January 31, 2004, our obligations included notes payable, notes and debentures of $10,925 million (discussed in detail under Long-term Debt and Notes Payable on page 33) and the present value of capital and operating lease obligations of $158 million and $998 million, respectively (discussed in detail under Leases on page 34). In addition, commitments for the purchase, construction, lease or remodeling of real estate, facilities and equipment were approximately $545 million at year-end 2003. Royalty commitments of approximately $80 million are due during the three-year period ending in 2007. Throughout the year, we enter into various commitments to purchase inventory. In addition to the accounts payable reflected in our Statements of Financial Position on page 27, we had commitments with various vendors for the purchase of inventory as of January 31, 2004. These purchase commitments are cancelable by their terms.

We are exposed to claims and litigation arising out of the ordinary course of business and use various methods to resolve these matters in a manner that serves the best interest of our shareholders and other constituents. The dispute resolution methods that we use include vigorous litigation, when necessary, and alternatives such as settlement discussions, where appropriate, to reduce the costs of litigation. Our policy is to fully disclose pending lawsuits and other known claims that we expect may have a material impact on our results of operations or financial condition. However, management, after consulting with legal counsel, does not believe the currently identified claims and litigation meet this criterion.

Long-term Debt and Notes Payable

At January 31, 2004, no notes payable were outstanding. The average amount of secured and unsecured notes payable outstanding during 2003 was $377 million at a weighted average interest rate of 1.2 percent. Notes payable balances can fluctuate significantly during the year due to seasonal financing needs and other factors. On October 31, 2003, our short-term borrowing reached its highest level for the year of $1,409 million.

At February 1, 2003, $100 million of notes payable secured by credit card receivables were outstanding. The average amount of secured and unsecured notes payable outstanding during 2002 was $170 million at a weighted average interest rate of 1.9 percent. During 2002, the highest level of short-term borrowing was $735 million.

At January 31, 2004, two committed credit agreements totaling $1.6 billion were in place through a group of 26 banks at specified rates. Of these credit lines, an $800 million credit facility expires in June 2004 and includes a one-year term-out option to June 2005. The remaining $800 million credit facility expires in June 2008. There were no balances outstanding at any time during 2003 or 2002 under these agreements.

In 2003, we issued $500 million of long-term debt maturing in 2008 at 3.38 percent, $200 million of long-term debt maturing in 2018 at 4.88 percent and $500 million of long-term debt maturing in 2013 at 4.00 percent. We also called or repurchased $297 million of long-term debt with an average remaining life of 20 years and a weighted average interest rate of 7.8 percent, resulting in a loss of $15 million (approximately $.01 per share).

In 2002, we issued $750 million of long-term debt maturing in 2009 at 5.38 percent, $1 billion of long-term debt maturing in 2012 at 5.88 percent and $600 million of long-term debt maturing in 2032 at 6.35 percent. Also during 2002, we issued $750 million of floating rate debt secured by credit card receivables, bearing interest at an initial rate of 1.99 percent maturing in 2007. We also called or repurchased $266 million of long-term debt with an average remaining life of 19 years and a weighted average interest rate of 8.8 percent, resulting in a loss of $34 million ($.02 per share).

The portion of long-term debt secured by credit card receivables is $1,500 million at January 31, 2004, $750 million of which matures in July 2004 and is classified as current portion of long-term debt. On February 1, 2003, we had $1,900 million of long-term debt secured by credit card receivables, $400 million of which was classified as current portion of long-term debt.

At year-end our debt portfolio, including adjustments related to swap transactions discussed in the following derivatives section, was as follows:

Long-term Debt and Notes Payable

	January 31, 2004		February 1, 2003	
(millions)	**Rate***	**Balance**	Rate*	Balance
Notes payable	**–%**	**$ –**	1.4%	$ 100
Notes and debentures:				
Due 2003-2007	**2.8**	**3,498**	3.6	4,396
Due 2008-2012	**5.3**	**4,757**	5.8	4,249
Due 2013-2017	**4.4**	**560**	7.6	60
Due 2018-2022	**5.3**	**410**	9.3	217
Due 2023-2027	**6.8**	**200**	7.4	495
Due 2028-2032	**6.7**	**1,500**	6.7	1,500
Total notes payable, notes and debentures**	**4.7%**	**$10,925**	5.2%	$11,017
Capital lease obligations		**158**		144
Less: current portion		**(866)**		(975)
Long-term debt and notes payable		**$10,217**		$10,186

**Reflects the weighted average stated interest rate as of year-end, including the impact of interest rate swaps.*

***The estimated fair value of total notes payable and notes and debentures, using a discounted cash flow analysis based on our incremental interest rates for similar types of financial instruments, was $11,720 million at January 31, 2004 and $11,741 million at February 1, 2003.*

Required principal payments on long-term debt and notes payable over the next five years, excluding capital lease obligations, are $857 million in 2004, $502 million in 2005, $752 million in 2006, $1,323 million in 2007 and $1,451 million in 2008.

Derivatives

Our derivative instruments are primarily interest rate swaps which hedge the fair value of certain debt by effectively converting interest from a fixed rate to a variable rate. We also hold derivative instruments to manage our exposure to risks associated with the effect of equity market returns on our non-qualified defined contribution plans as discussed on page 36.

At January 31, 2004 and February 1, 2003, interest rate swaps were outstanding in notional amounts totaling $2,150 million and $1,450 million, respectively. The change in market value of an interest rate swap as well as the offsetting change in market value of the hedged debt are recognized into earnings in the current period. Ineffectiveness results when changes in the market value of the hedged debt are not completely offset by changes in the market value of the interest rate swap. There was no ineffectiveness recognized in 2003 or 2002 related to these instruments. The fair value of outstanding interest rate swaps and unamortized gains from terminated interest rate swaps was $97 million at January 31, 2004 and $127 million at February 1, 2003.

During 2003, we entered into interest rate swaps with notional amounts of $200 million, $500 million and $400 million. We also terminated an interest rate swap with a notional amount of $400 million, resulting in a gain of $24 million that will be amortized into income over the life of the hedged debt. During 2002, we entered into interest rate swaps with notional amounts of $400 million and $500 million. An interest rate swap with a notional amount of

$400 million matured in 2002. We also terminated an interest rate swap with a notional amount of $500 million, resulting in a gain of $19 million that will be amortized into income over the life of the hedged debt. In 2003 and 2002, the gains amortized into income were not material to our results of operations.

Prior to 2003, we entered into rate lock agreements to hedge the exposure to variability in future cash flows of forecasted debt transactions. During 2002, transactions contemplated by these agreements occurred and the gain or loss was recorded as a component of other comprehensive income. The gain or loss will be reclassified into earnings in the periods during which the designated hedged cash flows affect earnings. These amounts are reflected in the Consolidated Statements of Financial Position. Cash flows from these hedging transactions are classified with the item being hedged.

Interest Rate Swaps Outstanding at Year-end

(millions)

January 31, 2004			February 1, 2003		
Notional Amount	**Receive Fixed**	**Pay Floating***	Notional Amount	Receive Fixed	Pay Floating*
$500	**7.5%**	**1.2%**	$500	7.5%	1.5%
550	**4.6**	**1.3**	550	4.6	1.4
200	**4.9**	**1.1**	-	-	-
400	**4.4**	**1.4**	-	-	-
500	**4.4**	**1.2**	-	-	-
-	**-**	**-**	400	5.1	1.4

**Reflects floating interest rate accrued at the end of the year.*

Leases

Assets held under capital leases are included in property and equipment and are charged to depreciation and interest over the life of the lease. Operating leases are not capitalized and lease rentals are expensed. Rent expense on buildings, classified in selling, general and administrative expense, includes percentage rents that are based on a percentage of retail sales over stated levels. Total rent expense was $183 million in 2003, $179 million in 2002 and $171 million in 2001. Most of the long-term leases include options to renew, with terms varying from one to 30 years. Certain leases also include options to purchase the property.

Future minimum lease payments required under noncancelable lease agreements existing at January 31, 2004, were:

Future Minimum Lease Payments

(millions)	Operating Leases	Capital Leases
2004	$ 163	$ 21
2005	150	20
2006	136	19
2007	125	19
2008	111	19
After 2008	1,093	166
Total future minimum lease payments	$1,778	$264
Less: Interest*	(780)	(106)
Present value of minimum lease payments	$ 998	$158**

**Calculated using the interest rate at inception for each lease (the weighted average interest rate was 8.6 percent).*

***Includes current portion of $9 million.*

Income Taxes

Reconciliation of tax rates is as follows:

Tax Rate Reconciliation

	2003	2002	2001
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**3.3**	3.4	3.3
Dividends on ESOP stock	**(.2)**	(.2)	(.1)
Work opportunity tax credits	**(.2)**	(.2)	(.2)
Other	**(.1)**	.2	–
Effective tax rate	**37.8%**	38.2%	38.0%

The components of the provision for income taxes were:

Income Tax Provision: Expense

(millions)	**2003**	2002	2001
Current:			
Federal	**$ 751**	$ 663	$683
State	**121**	111	107
	872	774	790
Deferred:			
Federal	**219**	220	43
State	**28**	28	6
	247	248	49
Total	**$1,119**	$1,022	$839

The components of the net deferred tax asset/(liability) were:

Net Deferred Tax Asset/(Liability)

(millions)	**January 31, 2004**	February 1, 2003
Gross deferred tax assets:		
Self-insured benefits	**$ 189**	$ 188
Deferred compensation	**241**	184
Inventory	**89**	106
Accounts receivable valuation allowance	**158**	151
Postretirement health care obligation	**42**	42
Other	**81**	77
	800	748
Gross deferred tax liabilities:		
Property and equipment	**(938)**	(730)
Pension	**(218)**	(160)
Other	**(133)**	(98)
	(1,289)	(988)
Total	**$ (489)**	$(240)

Other Long-term Liabilities

In addition to deferred taxes discussed above, the major components of other long-term liabilities at January 31, 2004 and February 1, 2003 included obligations for deferred compensation plan liabilities, workers' compensation/general liability costs, property related liabilities and postretirement health care benefits. The increase in the other long-term liability balance primarily represents increases in deferred compensation plan liabilities and workers' compensation/general liability costs of $127 million and $34 million, respectively,

offset by a decrease in property related liabilities of $31 million. Our current year postretirement health care and deferred compensation plan activity is discussed below.

Stock Option Plans

We have stock option plans for key employees and non-employee members of our Board of Directors. Our long-term incentive plans provide for the granting of stock options, performance share awards, restricted stock awards, or a combination of awards. Performance share awards represent shares issuable in the future based upon attainment of specified levels of future financial performance. A majority of the awards are non-qualified stock options that vest annually in equal amounts over a four-year period. These options expire no later than ten years after the date of the grant. Options granted to the non-employee members of our Board of Directors vest after one year and have a ten-year term. In early 2003, we stopped issuing new shares for our stock option plan and began purchasing shares from the market. The number of unissued common shares reserved for future grants under the stock option plans was 19,279,658 at January 31, 2004 and 24,091,318 at February 1, 2003.

Options and Performance Share Awards Outstanding

	Options				
	Total Outstanding		Currently Exercisable		Performance Shares Potentially Issuable
(options and shares in thousands)	Number of Options	Average Price*	Number of Options	Average Price*	
February 3, 2001	32,258	$ 19.30	18,662	$ 12.36	–
Granted	4,805	40.52			
Canceled	(437)	30.41			
Exercised	(5,311)	9.42			
February 2, 2002	31,315	$ 24.07	17,629	$ 17.04	–
Granted	6,096	30.60			552
Canceled	(561)	35.55			
Exercised	(2,063)	12.22			
February 1, 2003	34,787	$ 25.73	21,931	$ 20.89	552
Granted	4,638	38.34			573
Canceled	(407)	34.77			
Exercised	(2,859)	12.58			
January 31, 2004	**36,159**	**$28.28**	**23,689**	**$24.48**	**1,125**

*Weighted average exercise price.

Options Outstanding

		Options Outstanding			Currently Exercisable	
(options in thousands)	Range of Exercise Prices	Number Outstanding	Average Life**	Average Price*	Number Exercisable	Average Price*
	$ 5.53–$ 9.99	5,058	2.2	$ 7.79	5,058	$ 7.79
	$10.00–$ 19.99	4,718	3.7	18.31	4,718	18.31
	$20.00–$ 29.99	3,500	4.5	25.92	3,467	25.92
	$30.00–$ 39.99	18,473	7.9	33.91	8,266	33.30
	$40.00–$44.83	4,410	7.8	40.84	2,180	40.81
Total	$ 5.53–$44.83	36,159	6.2	$28.28	23,689	$24.48

*Weighted average exercise price.

**Weighted average contractual life remaining in years.

In the first quarter of 2003, we adopted SFAS No. 123 in accordance with the prospective transition method prescribed in SFAS No. 148. The adoption of this method increased compensation expense by less than $.01 per share in 2003. The requirements of SFAS No. 123 and SFAS No. 148 are discussed in Management's Discussion and Analysis on page 24.

Awards granted in fiscal year 2002 and earlier will continue to be accounted for under the intrinsic value method prescribed in APB No. 25. No compensation expense related to options was recognized because the exercise price of our employee stock options equaled the market price of the underlying stock on the grant date. The expense related to the intrinsic value of performance-based and restricted stock awards issued was not significant to 2003 net earnings, cash flows or financial position. The pro forma impact of accounting for those awards at fair value will continue to be disclosed until the last of those awards vest in January of 2007. If we had elected to recognize compensation cost based on the fair value of the awards at the grant date, net earnings would have been the pro forma amounts shown below.

Pro Forma Earnings

(millions, except per share data)	**2003**	2002	2001
Net earnings — as reported	**$1,841**	$1,654	$1,368
Stock-based employee compensation expense included in reported net earnings, net of tax	**3**	–	–
Stock-based employee compensation expense determined under fair value based method, net of tax	**(35)**	(31)	(28)
Net earnings — pro forma	**$1,809**	$1,623	$1,340
Earnings per share:			
Basic — as reported	**$ 2.02**	$ 1.82	$ 1.52
Basic — pro forma	**$ 1.99**	$ 1.79	$ 1.49
Diluted — as reported	**$ 2.01**	$ 1.81	$ 1.50
Diluted — pro forma	**$ 1.97**	$ 1.78	$ 1.47

The Black-Scholes model was used to estimate the fair value of the options at grant date based on the following assumptions:

	2003	2002	2001
Dividend yield	**.8%**	.8%	.6%
Volatility	**29%**	35%	30%
Risk-free interest rate	**3.0%**	3.0%	4.3%
Expected life in years	**5.0**	5.0	5.0
Weighted average fair value at grant date	**$11.04**	$10.07	$13.09

Defined Contribution Plans

Employees who meet certain eligibility requirements can participate in a defined contribution 401(k) plan by investing up to 80 percent of their compensation. We match 100 percent of each employee's contribution up to 5 percent of respective total compensation. Our contribution to the plan is initially invested in Target Corporation common stock. Benefits expense related to these matching contributions was $117 million, $111 million and $97 million in 2003, 2002 and 2001, respectively.

In addition, we maintain other non-qualified, unfunded plans that allow participants who are otherwise limited by qualified plan statutes or regulations to defer compensation and earn returns either tied to the results of our 401(k) plan investment choices or market levels of interest rates. We manage the risk of offering these retirement savings plans to this group of employees through a variety of means, including investing in vehicles that offset a substantial portion of our exposure to these returns. We recognized benefits expense for these non-qualified plans of $86 million and $11 million in 2003 and 2001, respectively, and income of $20 million in 2002. Including the impact of these related investments, net benefits expense resulting from these plans was $28 million, $16 million and $15 million in 2003, 2002 and 2001, respectively. We adjusted our position in some of these investment vehicles resulting in the repurchase of 1.5 million, 0.5 million and 0.5 million shares of our common stock in 2003, 2002 and 2001, respectively.

Additionally, during 2002, certain non-qualified pension and survivor benefits owed to current executives were exchanged for deferrals in a non-qualified plan and certain retired executives accepted our offer to exchange our obligation to them in a frozen non-qualified plan for deferrals in the plan. These exchanges resulted in pre-tax net expense of $33 million ($.02 per share). In 2003, additional retired executives accepted our offer to exchange our obligation to them in the frozen non-qualified plan for deferrals in the plan, which resulted in a pre-tax net expense of $17 million ($.01 per share). We expect lower future expenses as a result of these transactions because they were designed to be economically neutral or slightly favorable to us.

Participants in our non-qualified plans deferred compensation of $42 million, $35 million and $33 million in 2003, 2002 and 2001, respectively.

Pension and Postretirement Health Care Benefits

We have qualified defined benefit pension plans that cover all employees who meet certain age, length of service and hours worked per year requirements. We also have unfunded non-qualified pension plans for employees who have qualified plan compensation restrictions. Benefits are provided based upon years of service and the employee's compensation. Retired employees also become eligible for certain health care benefits if they meet minimum age and service requirements and agree to contribute a portion of the cost.

The Medicare Prescription Drug, Improvements and Modernization Act of 2003 (the Act) was signed into law in December 2003. The Act introduces a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit. The accumulated benefit obligation and net periodic postretirement benefit cost reflected in our financial statements do not incorporate the effects of the Act. The accounting guidance has not been finalized and we expect the Act to have a minimal impact on our retirement plans.

Obligations and Funded Status at October 31, 2003

	Pension Benefits				Postretirement Health Care Benefits	
	Qualified Plans		Non-qualified Plans			
(millions)	**2003**	2002	**2003**	2002	**2003**	2002
Change in Benefit Obligation						
Benefit obligation at beginning of measurement period	**$1,078**	$1,014	**$ 23**	$ 53	**$ 116**	$ 114
Service cost	**73**	57	**1**	1	**2**	2
Interest cost	**74**	72	**2**	3	**8**	8
Actuarial loss	**164**	59	**6**	–	**7**	2
Benefits paid	**(56)**	(50)	**(3)**	(5)	**(10)**	(10)
Plan amendments	**–**	(74)	**–**	–	**–**	–
Settlement	**–**	–	**–**	(29)	**–**	–
Benefit obligation at end of measurement period	**$1,333**	$1,078	**$ 29**	$ 23	**$ 123**	$ 116
Change in Plan Assets						
Fair value of plan assets at beginning of measurement period	**$1,058**	$1,033	**$ –**	$ –	**$ –**	$ –
Actual return on plan assets	**203**	(79)	**–**	–	**–**	–
Employer contribution	**200**	154	**3**	5	**10**	10
Benefits paid	**(56)**	(50)	**(3)**	(5)	**(10)**	(10)
Fair value of plan assets at end of measurement period	**$1,405**	$1,058	**$ –**	$ –	**$ –**	$ –
Funded status	**$ 72**	$ (20)	**$(29)**	$(23)	**$(123)**	$(116)
Unrecognized actuarial loss	**587**	530	**12**	6	**12**	7
Unrecognized prior service cost	**(65)**	(73)	**3**	3	**1**	1
Net amount recognized	**$ 594**	$ 437	**$(14)**	$(14)	**$(110)**	$(108)

Amounts recognized in the statements of financial position consist of:

	Pension Benefits				Postretirement Health Care Benefits	
	Qualified Plans		Non-qualified Plans			
(millions)	**2003**	2002	**2003**	2002	**2003**	2002
Prepaid benefit cost	**$600**	$441	**$ –**	$ –	**$ –**	$ –
Accrued benefit cost	**(6)**	(4)	**(20)**	(20)	**(110)**	(108)
Intangible assets	**–**	–	**3**	4	**n/a**	n/a
Accumulated OCI	**–**	–	**3**	2	**n/a**	n/a
Net amount recognized	**$594**	$437	**$(14)**	$(14)	**$(110)**	$(108)

The accumulated benefit obligation for all defined benefit pension plans was $1,237 million and $939 million at October 31, 2003 and 2002, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with an accumulated benefit obligation in excess of plan assets were $34 million, $30 million and $1 million, respectively, as of October 31, 2003 and $31 million, $25 million and $2 million, respectively, as of October 31, 2002.

Net Pension and Postretirement Health Care Benefits Expense

(millions)	Pension Benefits 2003	2002	2001	Postretirement Health Care Benefits 2003	2002	2001
Service cost benefits earned during the period	**$74**	$58	$50	**$ 2**	$ 2	$ 2
Interest cost on projected benefit obligation	**75**	75	69	**8**	8	8
Expected return on assets	**(114)**	(108)	(89)	**–**	–	–
Recognized losses	**18**	10	1	**1**	1	–
Recognized prior service cost	**(7)**	1	1	**–**	–	–
Settlement/curtailment charges	**–**	(12)	–	**–**	–	–
Total	**$46**	$24	$32	**$11**	$11	$10

The amortization of any prior service cost is determined using a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan.

Assumptions

Weighted average assumptions used to determine benefit obligations at October 31:

	Pension Benefits 2003	2002	Postretirement Health Care Benefits 2003	2002
Discount rate	**6.25%**	7.00%	**6.25%**	7.00%
Average assumed rate of compensation increase	**3.25%**	4.00%	**n/a**	n/a

Weighted average assumptions used to determine net periodic benefit cost for years ended October 31:

	Pension Benefits 2003	2002	Postretirement Health Care Benefits 2003	2002
Discount rate	**7.00%**	7.25%	**7.00%**	7.25%
Expected long-term rate of return on plan assets	**8.50%**	9.00%	**n/a**	n/a
Average assumed rate of compensation increase	**4.00%**	4.25%	**n/a**	n/a

Our rate of return on qualified plans' assets has averaged 5.4 percent and 9.6 percent per year over the 5-year and 10-year periods ending October 31, 2003 (our measurement date). After that date, we reduced our expected long-term rate of return on plans' assets to 8.0 percent per year.

An increase in the cost of covered health care benefits of 6.0 percent was assumed for 2003 and 2004. The rate is assumed to remain at 6.0 percent in the future. The health care cost trend rate assumption may have a significant effect on the amounts reported.

A one percent change in assumed health care cost trend rates would have the following effects:

	1% Increase	1% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ –	$ –
Effect on the health care component of the postretirement benefit obligation	$5	$(5)

Additional Information

Our pension plan weighted average asset allocations at October 31, 2003 and 2002 by asset category are as follows:

Asset Category	2003	2002
Equity securities	**56%**	54%
Debt securities	**26**	24
Real estate	**5**	5
Other	**13**	17
Total	**100%**	100%

Our asset allocation strategy for 2004 targets 55 percent in equity securities, 25 percent in debt securities, 5 percent in real estate and 15 percent in other assets. Equity securities include our common stock in amounts substantially less than 0.5 percent of total plan assets at October 31, 2003 and 2002. Other assets includes private equity, mezzanine and distressed debt and timber. Our expected long-term rate of return assumptions as of October 31, 2003 are 8.5 percent, 5.5 percent, 7.0 percent and 10.0 percent for equity securities, debt securities, real estate and other assets, respectively.

Contributions

Given the qualified pension plans' funded position, we are not required to make any contributions in 2004. In similar situations in the past, we have chosen to make discretionary contributions for various purposes, including minimizing Pension Benefit Guaranty Corporation premium payments and maintaining the fully-funded status of the plans. In 2004, such discretionary contributions could range from $0 to $200 million. We expect to make contributions in the range of $5 million to $15 million to our other postretirement benefit plans in 2004.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(millions)	Pension Benefits	Postretirement Health Care Benefits
2004	$ 59	$ 8
2005	62	9
2006	66	9
2007	70	10
2008	75	10
2009–2013	475	57

Business Segment Comparisons

(millions)	**2003**	2002	2001	2000*	1999	1998
Revenues						
Target	**$41,346**	$36,917	$32,588	$29,278	$26,080	$23,014
Mervyn's	**3,553**	3,816	4,027	4,142	4,087	4,140
Marshall Field's	**2,584**	2,691	2,778	2,969	3,041	3,047
Other	**680**	493	433	462	449	434
Total revenues	**$48,163**	$43,917	$39,826	$36,851	$33,657	$30,635
Pre-tax segment profit and earnings reconciliation						
Target	**$ 3,467**	$ 3,088	$ 2,546	$ 2,223	$ 2,022	$ 1,578
Mervyn's	**160**	238	286	269	205	240
Marshall Field's	**107**	135	133	190	296	279
Total pre-tax segment profit	**$ 3,734**	$ 3,461	$ 2,965	$ 2,682	$ 2,523	$ 2,097
LIFO provision (expense)/credit	**27**	12	(8)	(4)	7	18
Securitization adjustments:						
Loss	**–**	–	(67)	–	–	(3)
Interest equivalent	**–**	–	(27)	(50)	(49)	(48)
Interest expense	**(559)**	(588)	(473)	(426)	(459)	(442)
Mainframe outsourcing	**–**	–	–	–	(5)	(42)
Other	**(242)**	(209)	(183)	(149)	(148)	(69)
Earnings before income taxes	**$ 2,960**	$ 2,676	$ 2,207	$ 2,053	$ 1,869	$ 1,511
Assets						
Target	**$25,525**	$22,752	$18,515	$14,348	$12,048	$10,475
Mervyn's	**2,243**	2,270	2,379	2,270	2,248	2,339
Marshall Field's	**2,153**	2,202	2,284	2,114	2,149	2,123
Other	**1,471**	1,379	976	758	698	729
Total assets	**$31,392**	$28,603	$24,154	$19,490	$17,143	$15,666
Depreciation and amortization						
Target	**$ 1,055**	$ 925	$ 784	$ 660	$ 567	$ 496
Mervyn's	**106**	122	126	131	138	138
Marshall Field's	**115**	125	135	133	133	135
Other	**44**	40	34	16	16	11
Total depreciation and amortization	**$ 1,320**	$ 1,212	$ 1,079	$ 940	$ 854	$ 780
Capital expenditures						
Target	**$ 2,690**	$ 2,966	$ 2,901	$ 2,244	$ 1,665	$ 1,352
Mervyn's	**145**	110	104	106	108	169
Marshall Field's	**141**	105	125	143	124	127
Other	**28**	40	33	35	21	9
Total capital expenditures	**$ 3,004**	$ 3,221	$ 3,163	$ 2,528	$ 1,918	$ 1,657
Segment net assets and shareholders' equity reconciliation						
Target	**$19,514**	$17,491	$13,812	$10,659	$ 8,413	$ 7,302
Mervyn's	**1,757**	1,749	1,868	1,928	1,908	2,017
Marshall Field's	**1,754**	1,822	1,764	1,749	1,795	1,785
Other	**675**	636	477	463	428	470
Total net assets	**$23,700**	$21,698	$17,921	$14,799	$12,544	$11,574
Securitized receivables	**–**	–	–	(753)	(753)	(753)
Marketable securities	**244**	357	84	–	–	44
Current portion of long-term debt and notes payable	**(866)**	(975)	(905)	(857)	(498)	(256)
Long-term debt	**(10,217)**	(10,186)	(8,088)	(5,634)	(4,521)	(4,452)
Deferred income taxes and other	**(1,796)**	(1,451)	(1,152)	(1,036)	(910)	(846)
Total shareholders' equity	**$11,065**	$ 9,443	$ 7,860	$ 6,519	$ 5,862	$ 5,311

Each operating segment's assets and operating results include accounts receivable and receivable-backed securities held by Target Receivables Corporation and Retailers National Bank, as well as related income and expense.

**Consisted of 53 weeks.*

Quarterly Results (Unaudited)

The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. The table below summarizes results by quarter for 2003 and 2002:

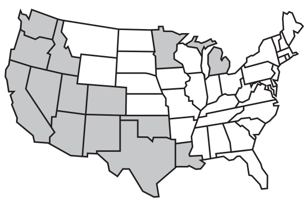
	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Total Year	
(millions, except per share data)	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Total revenues	**$10,322**	$ 9,594	**$10,984**	$10,068	**$11,286**	$10,194	**$15,571**	$14,061	**$48,163**	$43,917
Gross margin *(a)*	**$ 3,255**	$ 3,014	**$ 3,428**	$ 3,151	**$ 3,498**	$ 3,148	**$ 4,810**	$ 4,149	**$14,991**	$13,462
Net earnings	**$ 349**	$ 345	**$ 358**	$ 344	**$ 302**	$ 277	**$ 832**	$ 688	**$ 1,841**	$ 1,654
Basic earnings per share *(b)*	**$ .38**	$ .38	**$ .39**	$ .38	**$ .33**	$ .31	**$ .91**	$ .76	**$ 2.02**	$ 1.82
Diluted earnings per share *(b)*	**$ .38**	$ .38	**$ .39**	$ .38	**$ .33**	$ .30	**$ .91**	$ .75	**$ 2.01**	$ 1.81
Dividends declared per share *(b)*	**$ .060**	$ .060	**$ .070**	$ .060	**$ .070**	$ .060	**$ .070**	$ .060	**$ .270**	$ .240
Closing common stock price *(c)*										
High	**$ 33.44**	$ 45.72	**$ 39.82**	$ 44.94	**$ 41.54**	$ 37.25	**$ 40.15**	$ 35.74	**$ 41.54**	$ 45.72
Low	**$ 26.06**	$ 41.45	**$ 33.06**	$ 30.46	**$ 37.55**	$ 26.15	**$ 37.05**	$ 27.00	**$ 26.06**	$ 26.15

(a) Gross margin is sales less cost of sales. Gross margin for first and second quarter have been adjusted to reflect the impact of EITF No. 02-16 reclassifications for those periods of $36 million and $31 million, respectively.

(b) Per share amounts are computed independently for each of the quarters presented. The sum of the quarters may not equal the total year amount due to the impact of changes in average quarterly shares outstanding.

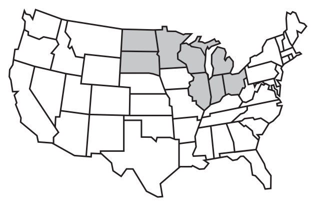
(c) Our common stock is listed on the New York Stock Exchange and Pacific Exchange. At March 22, 2004, there were 17,582 registered shareholders and the closing common stock price was $44.22 per share.

Mervyn's Store Count



	No. of Stores	Retail Sq. Ft. (in thousands)
Arizona	15	1,205
California	126	9,783
Colorado	11	853
Idaho	1	82
Louisiana	6	450
Michigan	15	1,165
Minnesota	9	1,159
Nevada	7	512
New Mexico	3	267
Oklahoma	3	268
Oregon	7	554
Texas	42	3,345
Utah	8	754
Washington	13	1,177
Total	**266**	**21,574**

Marshall Field's Store Count



	No. of Stores	Retail Sq. Ft. (in thousands)
Illinois	17	4,908
Indiana	2	243
Michigan	21	4,828
Minnesota	12	3,069
North Dakota	3	295
Ohio	1	187
South Dakota	1	100
Wisconsin	5	816
Total	**62**	**14,447**

Report of Independent Auditors

Board of Directors and Shareholders
Target Corporation

We have audited the accompanying consolidated statements of financial position of Target Corporation and subsidiaries as of January 31, 2004 and February 1, 2003 and the related consolidated results of operations, cash flows and shareholders' investment for each of the three years in the period ended January 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Target Corporation and subsidiaries at January 31, 2004 and February 1, 2003 and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 2004 in conformity with accounting principles generally accepted in the United States.

Minneapolis, Minnesota
February 19, 2004

Ernst & Young LLP

Report of Management

Management is responsible for the consistency, integrity and presentation of the information in the Annual Report. The consolidated financial statements and other information presented in this Annual Report have been prepared in accordance with accounting principles generally accepted in the United States and include necessary judgments and estimates by management.

To fulfill our responsibility, we maintain comprehensive systems of internal control designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with established procedures. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived. We believe our systems of internal control provide this reasonable assurance.

The Board of Directors exercises its oversight role with respect to the Corporation's systems of internal control primarily through its Audit Committee, which is comprised of five independent directors. The Committee oversees the Corporation's systems of internal control, accounting practices, financial reporting and audits to assess whether their quality, integrity and objectivity are sufficient to protect shareholders' investments. The Committee's report appears on this page.

In addition, our consolidated financial statements have been audited by Ernst & Young LLP, independent auditors, whose report also appears on this page. As a part of its audit, Ernst & Young LLP develops and maintains an understanding of the Corporation's internal accounting controls and conducts such tests and employs such procedures as it considers necessary to render its opinion on the consolidated financial statements. Their report expresses an opinion as to the fair presentation, in all material respects, of the consolidated financial statements and is based on independent audits made in accordance with auditing standards generally accepted in the United States.

Bob Ulrich

Robert J. Ulrich
Chairman of the Board and
Chief Executive Officer
February 19, 2004

Douglas A. Scovanner

Douglas A. Scovanner
Executive Vice President and
Chief Financial Officer

Report of Audit Committee

The Audit Committee met six times during fiscal 2003 to review the overall audit scope, plans for internal and independent audits, the Corporation's systems of internal control, emerging accounting issues, audit fees and benefit plans. The Committee also met individually with the independent auditors, without management present, to discuss the results of their audits. The Committee encourages the internal and independent auditors to communicate closely with the Committee.

Audit Committee results were reported to the full Board of Directors and the Corporation's annual financial statements were reviewed and approved by the Board of Directors before issuance. The Audit Committee also recommended to the Board of Directors that the independent auditors be reappointed for fiscal 2004, subject to the approval of the shareholders at the annual meeting.

February 19, 2004

Directors

Roxanne S. Austin
Former Executive Vice President, Hughes Electronics Corporation and Former President and Chief Operating Officer of its subsidiary, DIRECTV, Inc.
1, 2, 7

Calvin Darden
Senior Vice President, U.S. Operations, United Parcel Service of America, Inc.
1, 7

Roger A. Enrico
Retired Chairman and Chief Executive Officer, PepsiCo, Inc.
1, 3, 7

William W. George
Former Chairman and Chief Executive Officer, Medtronic, Inc.
1, 2, 4, 7

Elizabeth Hoffman
President, University of Colorado System
1, 7

Michele J. Hooper
Former Chief Executive Officer and President, Voyager Expanded Learning
1, 2, 6, 7

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Vice Chairman, Perseus, LLC
1, 3, 4, 5, 7

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Chairman and Chief Executive Officer, Wells Fargo & Co.
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Chairman and Chief Executive Officer, Xerox Corporation
1, 4, 5, 7

Stephen W. Sanger
Chairman and Chief Executive Officer, General Mills, Inc.
1, 3, 5, 6, 7

Warren R. Staley
Chairman and Chief Executive Officer, Cargill, Inc.
1, 4, 5, 7

George W. Tamke
Partner, Clayton, Dubilier & Rice, Inc.
1, 2, 3, 6, 7

Solomon D. Trujillo
Chief Executive Officer, Orange SA
1, 3, 4, 5, 7

Robert J. Ulrich
Chairman and Chief Executive Officer, Target Corporation and Target Stores
1

1 Executive Committee
2 Audit Committee
3 Compensation Committee
4 Corporate Responsibility Committee
5 Finance Committee
6 Nominating Committee
7 Corporate Governance Committee

Executive Officers

Linda L. Ahlers
President, Marshall Field's

Todd V. Blackwell
Executive Vice President, Human Resources, Assets Protection, AMC

Bart Butzer
Executive Vice President, Stores, Target Stores

Michael Francis
Executive Vice President, Marketing

John D. Griffith
Senior Vice President, Property Development

James T. Hale
Executive Vice President, General Counsel and Corporate Secretary (Retiring June 2004)

Diane L. Neal
President, Mervyn's

Luis Padilla
Executive Vice President, Merchandising, Marshall Field's

Douglas A. Scovanner
Executive Vice President and Chief Financial Officer

Paul L. Singer
Senior Vice President, Technology Services and Chief Information Officer

Gregg W. Steinhafel
President, Target Stores

Gerald L. Storch
Vice Chairman

Ertugrul Tuzcu
Executive Vice President, Store Operations, Marshall Field's

Robert J. Ulrich
Chairman and Chief Executive Officer

Other Officers

Timothy R. Baer
Senior Vice President, Law, General Counsel-Designate

Nathan K. Garvis
Vice President, Government Affairs

Susan D. Kahn
Vice President, Investor Relations

Tracy Kofski
Vice President, Total Compensation

Stephen C. Kowalke
Vice President and Treasurer

Richard J. Kuzmich
President, Associated Merchandising Corp.

Dale Nitschke
President, target.direct

Terrence J. Scully
President, Target Financial Services

Laysha Ward
Vice President, Community Relations

Jane P. Windmeier
Senior Vice President, Finance

Annual Meeting

The Annual Meeting of Shareholders is scheduled for May 19, 2004, at 9:30 a.m. CDT at The Children's Theatre, 2400 Third Avenue South, Minneapolis, Minnesota.

Shareholder Information

Quarterly and annual shareholder information, including the Form 10-Q and Form 10-K Annual Report, which are filed with the Securities and Exchange Commission, is available at no charge to shareholders. To obtain copies of these materials, you may call 612-761-6736, send an email to Investorrelations@target.com, or write to: Vice President, Investor Relations (TPN-1448), Target Corporation, 1000 Nicollet Mall, Minneapolis, Minnesota 55403. These documents as well as other information about Target Corporation, including our Business Conduct Guide, Corporate Governance Profile and Board of Directors' Committee Position Descriptions, are also available on the internet at www.target.com.

Sales Information

Comments regarding the company's sales results are provided periodically throughout the year on a recorded telephone message. You may access this message by calling 612-761-6500.

Transfer Agent, Registrar and Dividend Disbursing Agent

Mellon Investor Services

Shareholder Assistance

For assistance regarding individual stock records, lost certificates, name or address changes, dividend or tax questions, call Mellon Investor Services at 1-800-794-9871, access their Web site at www.melloninvestor.com, or write to:

Mellon Investor Services
P.O. Box 3315
South Hackensack, NJ 07606-1915

Direct Stock Purchase/Dividend Reinvestment Plan

Mellon Investor Services administers a direct service investment plan that allows interested investors to purchase Target Corporation stock directly, rather than through a broker, and become a registered shareholder of the Company. The program offers many features including dividend reinvestment. For detailed information regarding this program, call Mellon Investor Services toll free at 1-800-842-7629 or write to:

Mellon Investor Services
P.O. Box 3338
South Hackensack, NJ 07606-1938

Trustee, Employee Savings 401(k) and Pension Plans

State Street Bank and Trust Company

Stock Exchange Listings

Trading symbol: TGT
New York Stock Exchange and Pacific Stock Exchange

Concept and design: Little & Company, Minneapolis

Expect More. Pay Less.

1000 NICOLLET MALL MINNEAPOLIS, MN 55403 612.304.6073 WWW.TARGET.COM